Abu Dhabi Commercial Bank PJSC

Consolidated financial statements for the year ended December 31, 2020

The audited financial statements are subject to adoption by Shareholders at the Annual General Meeting

Consolidated financial statements are also available at www.adcb.com

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABU DHABI COMMERCIAL BANK PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Abu Dhabi Commercial Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

Finalisation of purchase price allocation for the merger with Union National Bank PJSC and acquisition of Al Hilal Bank PJSC	
Description of the Key Audit Matter	**How our audit addressed the key audit matter**
The Bank acquired Union National Bank PJSC and Al Hilal Bank PJSC with effect from 1 May 2019 and accounted for these business combinations using the acquisition method of accounting. The initial accounting of business combination remained incomplete as at 31 December 2019 and the provisional values of the acquired assets and liabilities were reported. The initial purchase price allocation also resulted in recognition of intangibles assets relating to trademark & license, core deposits and customer relationships amounting to AED 785,000 thousand and provisional goodwill amounting to AED 4,592,872 thousand. During the year, the purchase price allocation was finalised, and the fair values of the assets and liabilities acquired were adjusted on a retrospective basis and the provisional goodwill was restated to AED 6,734,717 thousand. The fair values of the assets and liabilities were determined using a range of various complex valuation techniques and methodologies which involved various complex inputs (including those which were unobservable) and required use of various management judgements, estimates and assumptions. The purchase price allocation was considered a significant risk for the current year audit and was considered as a key audit matter on account of subjectivity involved in the overall valuation process, the quantitative materiality of the transactions and because of the nature, the required specialist knowledge & skill and the overall extent of effort spent on the audit of these transactions and the assessment of the reasonableness of the fair values of the acquired assets and liabilities. Further information relating to this key audit matter is given in note 53 to the consolidated financial statements.	Our procedures mainly included, but were not limited to the following: ➢ We assessed the design and implementation of controls over the process of accounting for the business combinations; ➢ We assessed the competence, objectivity and capabilities of the management's experts used for the purchase price allocation; ➢ We reviewed the predecessor auditor's working paper to understand the audit procedures performed in respect of the initial allocation of the purchase price paid for the acquisition and merger of the two banks; ➢ We compared the fair values of the assets and liabilities used in the calculation of goodwill to the audited consolidated statement of financial position of the acquirees as at 30 April 2019 prepared under fair value basis of accounting; ➢ We involved our internal valuation specialists for the assessment of the criteria of the recognition of identified intangible assets and the assessment of the reasonableness of the fair values of the intangible assets acquired including the valuation of residual goodwill as determined by the management; ➢ We involved our internal real estate specialists for the assessment of the reasonableness of the fair valuation of the real estate properties acquired including fair valuation inputs and assumptions used in the valuation; ➢ We involved our risk and modelling internal specialist for the review of integration and harmonisation of the Expected Credit Losses (ECL) models of the acquiree with the Group's ECL models; ➢ We involved our internal valuation specialists for review of the fair values of acquired loans and review of the underlying estimates and assumptions including related inputs used for the valuation of the same; ➢ We evaluated the overall accounting policies adopted by the Group to account for business combination transactions; and ➢ We assessed the adequacy of the overall disclosures and presentation in the consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABU DHABI COMMERCIAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

<table>
<tr><th colspan="2">Estimation uncertainty with respect to measurement of allowance for expected credit losses for loans and advances to customers</th></tr>
<tr><th>Description of the Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>The Group has gross outstanding loans and advances to customers amounting to AED 250,453,230 thousand and holds an allowance for expected credit losses amounting to AED 11,477,528 thousand as at 31 December 2020. Loans and advances, net, approximately represent 58% of the total assets of the Group.

Determination of allowance for expected credit losses on loans and advances to customers is a process which requires significant judgements, estimates and inputs.

Management first assesses whether the credit risk of loans and advances to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL.

For loans and advances to customers classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default, discount rates and macro-economic inputs.</td><td>Our procedures mainly included, but were not limited to the following:

➢ We obtained understanding of the overall controls surrounding the ECL assessment including controls related to governance, policies review, IT controls and models validation;
➢ We obtained an understanding of management's assessment of impairment of loans and advances to customers, the Group's credit impairment provision policy and the ECL modelling methodology;
➢ We performed process walkthroughs to identify the controls over ECL process. We tested design and operational effectiveness of the following internal controls relating to the measurement of ECL:
o Review and approval of classification of loans and advances to customers.
o The management regular monitoring of:
▪ staging and ECL for loans and advances to customers;
▪ identification of loans and advances to customers displaying indicators of impairment under stage 3;
▪ macro-economic variables & forecast; and
▪ performance of ECL models.
o The review and approval of management overlays.
o The model validation function.
➢ We also tested the completeness and accuracy of the data on a sample basis used for computation of allowances for expected credit losses;
➢ We involved our risk and modelling team to review the ECL models used by the Group which included testing of assumptions and forward-looking factors used to determine the exposure at default, loss given default and probability of default;
➢ We involved our internal IT specialists for the purpose of testing IT application controls relating to application used for computation of the credit impairment process. We evaluated system-based and manual controls over the recognition and measurement of the ECL;</td></tr>
</table>

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

<table>
<tr><th colspan="2">Estimation uncertainty with respect to measurement of allowance for expected credit losses for loans and advances to customers continued</th></tr>
<tr><th>Description of the Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>For loans and advances to customers in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the loans and advances to customers.

Management has also applied significant level of judgements in areas noted above in determining the impact of COVID-19 on the allowances for credit losses by considering the following:

➢ Forward looking information, including variables used in macro-economic scenarios and their associated weightings;
➢ Stress in specific sectors and industries; and
➢ Impact of Government support measures.

Due to the relative subjectivity involved in the estimation process for determination of the allowance for expected credit losses and the ongoing COVID-19 pandemic adding to further estimation uncertainty, the quantitative materiality of the loans and advances to customers, the use of specialised knowledge and the overall extent of effort spent on the audit, this was determined to be a key audit matter for the current year audit.

Further information relating to this key audit matter is given in note 43 to the consolidated financial statements.</td><td>➢ We performed credit reviews over a selection of customers, derived on quantitative and qualitative criteria and assessed the classification and appropriateness of the loans and advances while assessing the credit worthiness of the customers. This included review of the credit documentation, approvals, collateral valuation reports, and other related documentation. For a sample of customers, we also obtained and recalculated the allowance for expected credit losses;
➢ We obtained management's specific assessment with respect to individually material exposures, assessed and challenged the assumptions used by the management;
➢ We reviewed the impact on expected credit losses on account of COVID-19 with specific focus on reassessment of macro-economic weights, impact of financial stress on various industries and the consideration of Government support measures; and
➢ We reconciled the overall ECL numbers to the consolidated financial statements and assessed the appropriateness of disclosures made in the consolidated financial statements.</td></tr>
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABU DHABI COMMERCIAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Other information
The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Articles of Association of the Bank and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and Board Audit & Compliance Committee are responsible for overseeing the Group's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABU DHABI COMMERCIAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABU DHABI COMMERCIAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Auditor's responsibilities for the audit of the consolidated financial statements continued

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 26 January 2020.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABU DHABI COMMERCIAL BANK PJSC continued

Report on Other Legal and Regulatory Requirements

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

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
iii) the Bank has maintained proper books of account;
iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Bank;
v) note 10 to the consolidated financial statements discloses purchases and investments made by the Group during the year ended 31 December 2020;
vi) note 37 reflects the disclosures relating to material related party transactions and the terms under which they were conducted;
vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2020, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2020; and
viii) note 51 to the consolidated financial statements discloses social contributions made during the year ended 31 December 2020.

Further, as required by the Decree of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to Auditing the Financial Statements of Subject Entities, we report that, based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Bank has not complied, in all material respects, with any of the provisions of the following laws, regulations and circulars, which would materially affect its activities or its consolidated financial statements as at 31 December 2020:

- law of establishment; and
- relevant provisions of applicable laws, resolutions and circulars organising the Bank's operations.

Further, as required by the Decretal 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.

J Murphy.

Signed by
Joseph Alexander Murphy
Partner
Ernst & Young
Registration No 492

31 January 2021
Abu Dhabi

Consolidated statement of financial position
As at December 31, 2020

	Notes	As at December 31 2020 AED'000	As at December 31 2019 restated (*) AED'000	As at December 31 2020 USD'000
Assets				
Cash and balances with central banks, net	7	**29,601,607**	24,904,966	**8,059,245**
Deposits and balances due from banks, net	8	**21,535,442**	23,064,974	**5,863,175**
Derivative financial instruments	9	**11,146,396**	6,789,717	**3,034,684**
Investment securities	10	**88,205,984**	73,442,662	**24,014,698**
Loans and advances to customers, net	11	**238,975,702**	247,833,080	**65,062,810**
Investment in associates	12	**255,868**	407,768	**69,662**
Investment properties	13	**1,643,956**	1,693,707	**447,579**
Other assets, net	14	**10,081,413**	16,750,208	**2,744,735**
Property and equipment, net	15	**2,058,575**	2,197,571	**560,461**
Intangible assets, net	16	**7,390,291**	7,474,342	**2,012,059**
Assets held for sale	35	**261,067**	535,830	**71,077**
Total assets		**411,156,301**	405,094,825	**111,940,185**
Liabilities				
Due to banks	17	**8,222,071**	5,732,779	**2,238,516**
Derivative financial instruments	9	**10,855,048**	6,949,891	**2,955,363**
Deposits from customers	18	**251,395,457**	262,093,782	**68,444,176**
Euro commercial paper	19	**4,753,593**	2,062,338	**1,294,199**
Borrowings	20	**65,396,044**	51,882,054	**17,804,531**
Other liabilities	21	**13,927,975**	20,302,794	**3,791,989**
Liabilities related to assets held for sale	35	**4,725**	413,395	**1,286**
Total liabilities		**354,554,913**	349,437,033	**96,530,060**
Equity				
Share capital	22	**6,957,379**	6,957,379	**1,894,195**
Share premium		**17,878,882**	17,878,882	**4,867,651**
Other reserves	23	**9,865,416**	9,257,919	**2,685,929**
Retained earnings		**15,895,692**	15,544,207	**4,327,714**
Capital notes	26	**6,000,000**	6,000,000	**1,633,542**
Equity attributable to equity holders of the Bank		**56,597,369**	55,638,387	**15,409,031**
Non-controlling interests		**4,019**	19,405	**1,094**
Total equity		**56,601,388**	55,657,792	**15,410,125**
Total liabilities and equity		**411,156,301**	405,094,825	**111,940,185**

(*) Refer note 53

These consolidated financial statements were duly approved by delegated members of the Board of Directors and authorised for issue on January 31, 2021 and signed on its behalf by:

Khaldoon Khalifa Al Mubarak	**Ala'a Eraiqat**	**Deepak Khullar**
Chairman	*Group Chief Executive Officer*	*Group Chief Financial Officer*

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

Consolidated income statement
For the year ended December 31, 2020

	Notes	2020 AED'000	2019 (*) AED'000	2020 USD'000
Interest income	27	**11,650,858**	13,877,686	**3,172,028**
Interest expense	28	**(3,745,602)**	(6,364,907)	**(1,019,766)**
Net interest income		**7,905,256**	7,512,779	**2,152,262**
Income from Islamic financing and investing products	24	**2,414,551**	2,495,966	**657,378**
Distribution on Islamic deposits and profit paid to sukuk holders	24	**(536,871)**	(767,609)	**(146,167)**
Net income from Islamic financing and investing products		**1,877,680**	1,728,357	**511,211**
Total net interest income and income from Islamic financing and investing products		**9,782,936**	9,241,136	**2,663,473**
Net fees and commission income	29	**1,550,889**	1,816,162	**422,240**
Net trading income	30	**555,288**	460,909	**151,181**
Net losses from investment properties	13	**(44,972)**	(66,736)	**(12,244)**
Other operating income	31	**627,106**	270,669	**170,734**
Operating income		**12,471,247**	11,722,140	**3,395,384**
Operating expenses	32	**(4,526,341)**	(4,517,679)	**(1,232,328)**
Operating profit before impairment charge		**7,944,906**	7,204,461	**2,163,056**
Impairment charge	33	**(3,992,912)**	(2,352,054)	**(1,087,098)**
Operating profit after impairment charge		**3,951,994**	4,852,407	**1,075,958**
Share in profit of associates	12	**18,005**	17,765	**4,902**
Profit before taxation		**3,969,999**	4,870,172	**1,080,860**
Overseas income tax charge		**(120,357)**	(40,926)	**(32,768)**
Profit for the year from continuing operations		**3,849,642**	4,829,246	**1,048,092**
Loss from discontinued operations	35	**(40,765)**	(36,759)	**(11,099)**
Profit for the year		**3,808,877**	4,792,487	**1,036,993**
Attributable to:				
Equity holders of the Bank		**3,806,078**	4,789,686	**1,036,231**
Non-controlling interests		**2,799**	2,801	**762**
Profit for the year		**3,808,877**	4,792,487	**1,036,993**
Basic and diluted earnings per share (AED)	34	**0.51**	0.71	**0.14**

(*) Refer note 3.1 for basis of preparation

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended December 31, 2020

	2020 AED'000	2019(*) AED'000	2020 USD'000
Profit for the year	**3,808,877**	4,792,487	**1,036,993**
Items that may be re-classified subsequently to the consolidated income statement			
Exchange difference arising on translation of foreign operations (Note 23)	**(2,675)**	32,889	**(728)**
Net movement in cash flow hedge reserve (Note 23)	**(56,191)**	171,505	**(15,298)**
Net movement in revaluation reserve of debt instruments designated at FVTOCI (Note 23)	**280,707**	1,277,703	**76,424**
	221,841	1,482,097	**60,398**
Items that may not be re-classified subsequently to the consolidated income statement			
Net movement in revaluation reserve of equity instruments designated at FVTOCI (Note 23)	**(23,584)**	(50,616)	**(6,421)**
Actuarial (losses)/gains on defined benefit obligation (Note 21)	**(31,213)**	16,773	**(8,498)**
	(54,797)	(33,843)	**(14,919)**
Other comprehensive income for the year	**167,044**	1,448,254	**45,479**
Total comprehensive income for the year	**3,975,921**	6,240,741	**1,082,472**
Attributable to:			
Equity holders of the Bank	**3,973,032**	6,235,518	**1,081,685**
Non-controlling interests	**2,889**	5,223	**787**
Total comprehensive income for the year	**3,975,921**	6,240,741	**1,082,472**

(*) Refer note 3.1 for basis of preparation

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended December 31, 2020

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital notes AED'000	Equity attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total equity AED'000
As at January 1, 2020 (restated)	**6,957,379**	**17,878,882**	**9,257,919**	**15,544,207**	**6,000,000**	**55,638,387**	**19,405**	**55,657,792**
Profit for the year	-	-	-	**3,806,078**	-	**3,806,078**	**2,799**	**3,808,877**
Other comprehensive income for the year (Note 23)	-	-	**198,167**	**(31,213)**	-	**166,954**	**90**	**167,044**
Transfer to statutory and legal reserve (Note 23)	-	-	**403,846**	**(403,846)**	-	-	-	-
Other movements (Note 23)	-	-	**3,236**	**(36)**	-	**3,200**	-	**3,200**
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 23)	-	-	-	**19,953**	-	**19,953**	-	**19,953**
Adjustment arising from changes in non-controlling interests	-	-	**2,248**	**(4,138)**	-	**(1,890)**	**(18,275)**	**(20,165)**
Dividends paid to equity holders of the Bank (Note 22)	-	-	-	**(2,643,804)**	-	**(2,643,804)**	-	**(2,643,804)**
Zakat for the year (Note 21)	-	-	-	**(114,215)**	-	**(114,215)**		**(114,215)**
Capital notes coupon paid (Note 34)	-	-	-	**(277,294)**	-	**(277,294)**	-	**(277,294)**
As at December 31, 2020	**6,957,379**	**17,878,882**	**9,865,416**	**15,895,692**	**6,000,000**	**56,597,369**	**4,019**	**56,601,388**
As at January 1, 2019	5,198,231	2,419,999	6,859,271	14,328,042	4,000,000	32,805,543	-	32,805,543
Issue of ordinary shares as consideration for business combinations (Note 22)	1,759,148	15,458,883	-	-	-	17,218,031	-	17,218,031
Addition on business combinations (restated) (Note 53)	-	-	-	-	3,836,500	3,836,500	14,931	3,851,431
Profit for the year	-	-	-	4,789,686	-	4,789,686	2,801	4,792,487
Other comprehensive income for the year (Note 23)	-	-	1,429,059	16,773	-	1,445,832	2,422	1,448,254
Transfer to statutory and legal reserve (Note 23)	-	-	957,936	(957,936)	-	-	-	-
Other movements (Note 23)	-	-	11,653	18	-	11,671	-	11,671
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 23)	-	-	-	23,853	-	23,853	-	23,853
Adjustment arising from changes in non-controlling interests	-	-	-	13	-	13	(749)	(736)
Repayment of Tier 1 capital notes (Note 26)	-	-	-	-	(1,836,500)	(1,836,500)	-	(1,836,500)
Dividends paid to equity holders of the Bank	-	-	-	(2,391,186)	-	(2,391,186)	-	(2,391,186)
Capital notes coupon paid (Note 34)	-	-	-	(265,056)	-	(265,056)	-	(265,056)
As at December 31, 2019 (restated) (*)	6,957,379	17,878,882	9,257,919	15,544,207	6,000,000	55,638,387	19,405	55,657,792

(*) Refer note 3.1 for basis of preparation

For the year ended December 31, 2020, the Board of Directors has proposed to pay a cash dividend representing 27% of the paid up capital (Note 22).

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended December 31, 2020

	2020 AED'000	2019(*) AED'000	2020 USD'000
OPERATING ACTIVITIES			
Profit before taxation including loss from discontinued operations (Note 35)	**3,932,929**	4,833,454	**1,070,767**
Adjustments for:			
Depreciation on property and equipment (Note 15)	**403,911**	367,059	**109,968**
Amortisation of intangible assets (Note 16)	**95,309**	64,175	**25,948**
Net losses from investment properties (Note 13)	**44,972**	66,736	**12,244**
Impairment charge	**4,277,480**	2,611,404	**1,164,574**
Share in profit of associates (Note 12)	**(18,005)**	(17,765)	**(4,902)**
Discount unwind	**(692,810)**	(232,051)	**(188,622)**
Net (gains)/losses from disposal of investment securities (Note 31)	**(282,701)**	820	**(76,967)**
Interest income on investment securities	**(2,093,011)**	(2,385,551)	**(569,837)**
Dividend income (Note 31)	**(21,683)**	(13,191)	**(5,903)**
Interest expense on borrowings and euro commercial paper	**1,164,863**	1,817,590	**317,142**
Net losses/(gains) from trading securities (Note 30)	**4,285**	(815)	**1,167**
Ineffective portion of hedges – (gains)/losses (Note 9)	**(31,600)**	46,633	**(8,603)**
Employees' incentive plan expense (Note 25)	**3,200**	11,671	**871**
Cash flows from operating activities before changes in operating assets and liabilities	**6,787,139**	7,170,169	**1,847,847**
Net movement in balances with central banks	**4,043,250**	1,011,166	**1,100,803**
Net movement in due from banks	**2,290,345**	(449,647)	**623,562**
Net movement in derivative financial instruments	**(185,184)**	50,627	**(50,418)**
Net (purchases)/disposals of trading securities	**(4,285)**	60,949	**(1,167)**
Net movement in loans and advances to customers	**4,413,604**	(1,602,510)	**1,201,635**
Net movement in other assets	**412,195**	178,656	**112,223**
Net movement in due to banks	**2,885,832**	(1,958,908)	**785,688**
Net movement in deposits from customers	**(10,818,731)**	(9,742,010)	**(2,945,475)**
Net movement in other liabilities	**(149,261)**	(634,724)	**(40,637)**
Net cash from/(used in) operations	**9,674,904**	(5,916,232)	**2,634,061**
Overseas income tax paid	**(67,857)**	(33,906)	**(18,475)**
Net cash from/(used in) operating activities	**9,607,047**	(5,950,138)	**2,615,586**
INVESTING ACTIVITIES			
Net proceeds from redemption/disposal of investment securities	**27,767,982**	30,940,003	**7,560,028**
Net purchases of investment securities	**(40,702,279)**	(29,737,663)	**(11,081,481)**
Interest received on investment securities	**2,998,427**	2,574,043	**816,343**
Dividend received from investment securities (Note 31)	**21,683**	13,191	**5,903**
Dividend received from associates (Note 12)	**9,647**	14,194	**2,626**
Disposal of investment in associate (Note 12)	**40,414**	-	**11,003**
Addition on business combinations (Note 53)	**-**	11,037,392	**-**
Disposal of investment properties (Note 13)	**4,990**	6,276	**1,359**
Net purchases of property and equipment	**(215,573)**	(273,344)	**(58,691)**
Net cash (used in)/from investing activities	**(10,074,709)**	14,574,092	**(2,742,910)**
FINANCING ACTIVITIES			
Net movement in euro commercial paper (Note 19)	**2,675,836**	(1,257,754)	**728,515**
Net proceeds from borrowings (Note 20)	**33,895,814**	18,012,653	**9,228,373**
Repayment of borrowings (Note 20)	**(22,859,293)**	(19,799,050)	**(6,223,603)**
Interest paid on borrowings and euro commercial paper	**(393,368)**	(1,236,577)	**(107,097)**
Payment of lease liabilities	**(94,486)**	(89,064)	**(25,724)**
Dividends paid to equity holders of the Bank	**(2,643,804)**	(2,391,186)	**(719,794)**
Acquisition of non-controlling interests	**(20,165)**	-	**(5,490)**
Repayment of capital notes (Note 26)	**-**	(1,836,500)	**-**
Capital notes coupon paid (Note 34)	**(277,294)**	(265,056)	**(75,495)**
Net cash from/(used in) financing activities	**10,283,240**	(8,862,534)	**2,799,685**
Net increase/(decrease) in cash and cash equivalents	**9,815,578**	(238,580)	**2,672,361**
Cash and cash equivalents at the beginning of the year (Note 36)	**22,856,273**	23,094,853	**6,222,781**
Cash and cash equivalents at the end of the year (Note 36)	**32,671,851**	22,856,273	**8,895,142**

(*) Refer note 3.1 for basis of preparation

The accompanying notes 1 to 53 form an integral part of these consolidated financial statements.

1. General information

Abu Dhabi Commercial Bank PJSC ("ADCB" or the "Bank") is a public joint stock company with limited liability incorporated in the emirate of Abu Dhabi, United Arab Emirates (UAE). The Bank and its subsidiaries (together referred to as the "Group") is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services.

On March 21, 2019, the shareholders of ADCB and Union National Bank PJSC ("UNB") approved the merger of two banks pursuant to Article 283 (1) of UAE Federal Law No. 2 of 2015 and subsequent acquisition of 100% of issued share capital of Al Hilal Bank PJSC ("AHB") by the combined bank. The merger was effected through issuance of 0.5966 new shares in ADCB for every one share of UNB, subject to the terms and conditions of the merger. Following the merger, ADCB and UNB shareholders own approximately 76% and 24% of the combined bank, respectively. On the effective date of the merger, UNB shares were delisted from the Abu Dhabi Securities Exchange. The combined bank retained ADCB's legal registrations.

The combined bank issued a mandatory convertible bond ("bond") of AED 1,000,000 thousand to the shareholder of AHB as consideration to acquire the entire issued share capital of AHB. The bond was converted immediately into 117,647,058 ADCB shares.

The effective date of the above merger and acquisition was May 1, 2019.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Sheikh Zayed Bin Sultan Street, Plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, UAE.

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

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- Amendments to references to the Conceptual Framework for Financial Reporting.
- Amendment to IFRS 3 regarding the definition of business.
- Amendment to IFRS 7, IFRS 9 and IAS 39 regarding the interest rate benchmark reforms.
- Amendments to IAS 1 and IAS 8 regarding the definition of materiality.
- Amendments to IFRS 16 regarding Covid-19 related rent concession.

Other than the above, there are no other significant IFRSs, amendments or interpretations that were effective for the first time for the financial year beginning on or after January 1, 2020.

Standards and Interpretations in issue but not yet effective

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The amendments clarify that hedge accounting is not discontinued solely because of the IBOR reform and also introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.	January 1, 2021

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

Standards and Interpretations in issue but not yet effective (continued)

The Group has not early adopted new and revised IFRSs that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 'Insurance Contracts' from applying IFRS 9 'Financial Instruments', so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023	January 1, 2023
Amendments to IAS 1 'Presentation of Financial Statements' to address classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	January 1, 2023
Amendments to IAS 16 'Property, Plant and Equipment' regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.	January 1, 2022
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.	January 1, 2022
Amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements.	January 1, 2022
Annual improvements to IFRS Standards 2018–2020	January 1, 2022
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures (2011)' relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.
IFRS 17 'Insurance Contracts' which requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of January 1, 2021.	January 1, 2023
Amendments to IFRS 17 'Insurance Contracts' to address concerns and implementation challenges that were identified after IFRS 17 was published in 2017	January 1, 2023

Management anticipates that these amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

3. Summary of significant accounting policies

3.1 Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements and related notes for the year ended December 31, 2020 include the results of UNB, AHB and their subsidiaries while the comparative results for the year ended December 31, 2019 do not include their results prior to May 1, 2019 i.e. the date of merger and acquisition.

Certain disclosure notes/numbers have been restated (Note 53), reclassified and rearranged from the Group's prior year consolidated financial statements to conform to the current year's presentation.

3.2 Measurement

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets and liabilities at fair value through profit and loss, financial assets and liabilities at fair value through other comprehensive income and investment properties.

3.3 Functional and presentation currency

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Group's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

The United States Dollar (USD) amounts in the primary financial statements are presented for the convenience of the reader only by converting the AED balances at the pegged exchange rate of 1 USD = 3.673 AED.

3.4 Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (collectively referred to as the "Group").

Subsidiaries

Subsidiaries are entities that are controlled by the Bank. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of voting rights of an investee, it still has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time the decision needs to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

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.

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Changes in the Bank's ownership interests in existing subsidiaries

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Bank's interests is adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the shareholders of the Bank. When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary, at the date when control is lost, is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

Special Purpose Entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank, the Bank has power over the SPE, is exposed to or has rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to affect the amount of its return, the Bank concludes that it controls the SPE.

The assessment of whether the Bank has control over a SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE except whenever there is a change in the substance of the relationship between the Bank and a SPE.

Funds under management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity, as referred to above.

Investment in associates

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements includes the Group's share of the profit or loss and other comprehensive income of investment in associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Investment in associates (continued)

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 – Impairment of Assets, as a single asset by comparing with the recoverable amount (higher of value in use and fair value less cost of disposal). Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the investment in prior years.

The Group discontinues the use of equity method of accounting from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date equity method was discontinued and the fair value of the retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation of that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

Joint operation – when the Group has rights to the assets and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – when the Group has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Non-current assets held for sale (continued)

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

3.6 Business combination under common control

A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Currently, there is no specific guidance on accounting for common control transactions under IFRSs, therefore the management needs to use judgement to develop an accounting policy that provides relevant and reliable information in accordance with IAS 8.

The Group accounts for business combinations under common control using the acquisition method when there is a commercial substance to the transaction. Under acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

3. Summary of significant accounting policies (continued)

3.6 Business combination under common control (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date but does not exceed twelve months.

Impairment testing of goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (Note 53) less accumulated impairment losses, if any.

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

A cash-generating unit ("CGU") to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.7 Changes in accounting policies on adoption of IFRS 9 – Hedge Accounting

The Group adopted IFRS 9 hedge accounting requirements with effect from January 1, 2020. As a part of transition, the Group carried out a review of all existing hedge relationships under IAS 39 and concluded that all hedge relationships qualified under IFRS 9 after taking into account any rebalancing of the hedging relationship on transition and are regarded as continuing hedging relationships.

The adoption of hedge accounting requirements under IFRS 9 have been implemented on a prospective basis and have not resulted in any adjustments to the Group's opening retained earnings.

Accounting policy till December 31, 2019

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

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest income and expense on designated qualifying hedge instruments is included in 'Net interest income'.

3. Summary of significant accounting policies (continued)

3.7 Changes in accounting policies on adoption of IFRS 9 – Hedge Accounting (continued)

Accounting policy till December 31, 2019 (continued)

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognised in the consolidated income statement and the carrying amount of the hedged item is adjusted accordingly. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting or the designation is revoked, hedge accounting is discontinued on prospective basis. Any adjustment up to that point to the carrying value of a hedged item, for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity or derecognition.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under cash flow hedge reserve. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to consolidated income statement in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in other comprehensive income will not be recovered in the future, that amount is immediately reclassified to consolidated income statement.

Hedge accounting is discontinued only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in consolidated income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and held in the net investment hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are reclassified from other comprehensive income and included in the consolidated income statement on the disposal of the foreign operation.

3. Summary of significant accounting policies (continued)

3.7 Changes in accounting policies on adoption of IFRS 9 – Hedge Accounting (continued)

Accounting policy till December 31, 2019 (continued)

Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent. Hedge ineffectiveness is recognised in the consolidated income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in "net gains from dealing in derivatives" under net trading income.

Accounting policy from January 1, 2020

Hedge accounting transition from IAS 39 to IFRS 9

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. As a result, the 80% - 125% range under IAS 39 is replaced by an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

3. Summary of significant accounting policies (continued)

3.7 Changes in accounting policies on adoption of IFRS 9 – Hedge Accounting (continued)

Accounting policy from January 1, 2020 (continued)

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship by way of rebalancing the hedge on a case-by-case basis, so that it meets the qualifying criteria again.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in consolidated income statement except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in other comprehensive income. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in consolidated income statement. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in consolidated income statement instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognised in consolidated income statement, they are recognised in the same line as the hedged item. The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to consolidated income statement from that date. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under cash flow hedge reserve. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to consolidated income statement in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in other comprehensive income will not be recovered in the future, that amount is immediately reclassified to consolidated income statement.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in consolidated income statement.

3. Summary of significant accounting policies (continued)

3.7 Changes in accounting policies on adoption of IFRS 9 – Hedge Accounting (continued)

Accounting policy from January 1, 2020 (continued)

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and held in the net investment hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are reclassified from other comprehensive income and included in the consolidated income statement on the disposal of the foreign operation.

Hedge effectiveness testing

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy.

The Group assess economic relationship and effectiveness on its designated hedges by matching critical terms of hedged item and hedging instrument as part of its qualitative assessment. The critical terms matching method replicates the hedge item and hence is not used for those hedge relationships where the hedging derivative includes features that are not present in the hedged item. In such cases, the hedge effectiveness assessment is performed using other quantitative methods and may result in ineffectiveness.

Some of the sources of ineffectiveness include the following:

- mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences
- significant changes in credit risk of the hedging instruments
- the effects of the forthcoming reforms of Interest rate benchmark, because these might take effect at a different time and have a different impact on hedged items and hedging instruments.

The ineffectiveness arising from quantitative assessments is recognised in the consolidated income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in “net gains from dealing in derivatives” under net trading income.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments

Financial assets

All financial assets are recognised and derecognised on settlement date basis (other than derivative contracts which are recognised and derecognised on trade date basis) where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Settlement date is the date that the Group physically receives or transfers the assets. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

(i) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
(ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);
(iii) all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable election/designation at the date of initial application of IFRS 9 or at the date of initial recognition of a financial asset on an asset-by-asset basis:
    - the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI) with dividend income recognised in profit or loss; and
    - the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The Group holds equity investments and mutual funds as strategic investments and has elected to carry these investments at FVTOCI with changes in fair value through other comprehensive income.

(a) Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments, which reflects how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models during each reporting period to determine whether the business models have changed since the preceding period.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

(b) Financial assets at FVTPL

Financial assets at FVTPL are:

(i) assets with contractual cash flows that are not SPPI; or/and
(ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
(iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

(c) Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Group's financial assets. Changes in contractual cash 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.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 3.8(h).

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR. However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, the ECL is the difference between the present value of the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Refer note 43 for more details on measurement of ECL.

(e) Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- for economic or contractual reasons relating to the borrower's financial difficulty, concessions given to the borrower that would not otherwise be considered; or
- the disappearance of an active market for a security because of financial difficulties

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

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

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit impaired financial assets (POCI). The Group measures expected credit loss on a lifetime basis for POCI instruments throughout the life of the instrument. However, expected credit loss is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime expected credit losses arising subsequent to initial recognition in the income statement and the cumulative changes as a loss provision. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in the income statement (and impairment loss where the expected credit losses are greater).

(g) Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due for more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. The decision to use cross-default is based on case-by-case assessment of borrower and facility conditions such as collateral and materiality of exposure.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset; for example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

(h) Significant increase in credit risk (SICR)

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information.

For retail lending, forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. Refer note 43 for more details about forward looking information and criteria used to determine significant increase in credit risk.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both deterioration in internal/external ratings as well as qualitative assessment. For further details on SICR, refer to note 43.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers credit scores and events such as unemployment, bankruptcy or death. As a backstop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

(i) Modification and derecognition of financial assets

Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine the substantially different terms the Group considers the qualitative factors (i.e. contractual cash flows after modification, change in currency or counterparty, interest rates, maturity, covenants) and a quantitative assessment (i.e. compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, discounted at the original effective interest).

In case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing the credit rating at initial recognition and the original contractual terms; with credit rating at the reporting date based on the modified terms.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but is transferred to retained earnings.

(j) Presentation of allowance for ECL

Loss allowances for ECL are presented in the consolidated financial statements as follows:

- for financial assets measured at amortised cost (loans and advances, balances due from central banks and other banks, reverse-repo placements, investment securities carried at amortised cost and other financial assets): as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: as part of revaluation reserve of investments designated at FVTOCI and recognised in other comprehensive income; and
- for loan commitments and financial guarantee contracts: as a provision.

Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'. The classification of financial liabilities at initial recognition depends on the purpose and management's intention for which the financial liabilities were incurred and their characteristics.

Financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at FVTPL) are deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at FVTPL are recognised immediately in profit or loss. If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the liability).

Financial liabilities are subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss. Gains and losses on financial liabilities, other than derivative instruments, designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as, currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred is recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised using EIR method over the remaining term of the modified liability.

3.9 Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Group are presented in AED, which is the Group's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the statement of financial position date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognised in either consolidated income statement or consolidated other comprehensive income statement depending upon the nature of the asset or liability.

In the consolidated financial statements, the results and financial positions of branches and subsidiaries whose functional currency is not AED, are translated into the Group's presentation currency as follows:

(a) assets and liabilities at the rate of exchange prevailing at the statement of financial position date;
(b) income and expenses at the average rates of exchange for the reporting period; and
(c) all resulting exchange differences arising from the retranslation of opening assets and liabilities and arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end are recognised in other comprehensive income and accumulated in equity under 'foreign currency translation reserve' (Note 23).

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on a proportionate basis, except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, where the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement.

3. Summary of significant accounting policies (continued)

3.10 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

The Group is party to a number of arrangements, including master netting agreements that give it the right to offset financial assets and financial liabilities but, where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented on a gross basis.

3.11 Sale and repurchase agreements

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos) are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under borrowings. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts placed under these agreements are included in reverse-repo placements. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

3.12 Securities borrowing and lending

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised in the statement of financial position nor are lent securities derecognised. Cash collateral received or given is treated as a financial asset or liability. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded. The securities borrowing and lending activity arrangements are generally entered into through repos and reverse repos.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with central banks, deposits and balances due from banks, due to banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.14 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3. Summary of significant accounting policies (continued)

3.15 Fair value measurement

The Group measures its financial assets and liabilities at market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence in the most advantageous market for the assets or liabilities. The Group considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

The Group measures its non-financial assets at a price that take into account a market participant's ability to generate economic benefits by using the assets for their highest and best use.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account into pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or a liability nor based on valuation technique that uses only data from observable markets, the instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either the market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Different levels of fair value hierarchy based on the inputs to valuation techniques are discussed in note 41. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3. Summary of significant accounting policies (continued)

3.16 Derivatives

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

Derivative financial instruments are initially measured at fair value at trade date, and are subsequently re-measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under 'net gain on dealing in derivatives' (Note 30).

3.17 Leases

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangement in which it is the lessee, except for short-term (defined as leases with a lease term of 12 months or less) and leases of low value asset. For these leases, the Group recognises the lease payments as an operating lease on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. This expense is presented within other expenses in the consolidated income statement.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect the interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the period of lease term or useful life of the underlying asset whichever is shorter. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as per the Group's impairment policy for non-financial assets.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease component, and instead account for any lease and associated non-lease component as a single arrangement.

The Group has presented right of use asset within 'Property and equipment' and lease liabilities within 'Other liabilities' in the consolidated statement of financial position.

The Group as lessor

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental income are recognised in the consolidated income statement on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

3. Summary of significant accounting policies (continued)

3.18 Treasury shares and contracts on own shares

Own equity instruments of the Group which are acquired by the Group or any of its subsidiaries (treasury shares) are deducted from other reserves and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity.

No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

3.19 Financial guarantees

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

Financial guarantee contracts are initially recognised at their fair value, which is likely to equal the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

3.20 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

3.21 Collateral repossessed

The Bank acquires collaterals in settlement of certain loans and advances. These collaterals are recognised at net realisable value on the date of acquisition and are classified as investment properties. Subsequently, the fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on these collaterals are included in the consolidated income statement in the period in which these gains or losses arise.

3.22 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. Refer note 3.15 for policy on fair valuation.

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

3. Summary of significant accounting policies (continued)

3.22 Investment properties (continued)

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

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

3.23 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged to the consolidated income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated.

Estimated useful lives are as follows:

Freehold properties	15 to 40 years
Leasehold and freehold improvements	7 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment, software and accessories	4 to 10 years

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

3.24 Capital work in progress

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

3.25 Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately or in a business combination (other than goodwill) are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

3. Summary of significant accounting policies (continued)

3.25 Intangible assets (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates and accounted for on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in consolidated income statement when the asset is derecognised.

3.26 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

3.27 Impairment of non-financial assets

At each consolidated statement of financial position date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. Summary of significant accounting policies (continued)

3.28 Employee benefits

(i) Employees' end of service benefits

(a) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in income statement, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

The Group provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

(b) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees.

Pension contributions are made by the Group to the Abu Dhabi Retirement Pensions and Benefits Fund for UAE citizens in accordance with UAE Federal Law No. 7 of 1999 and to respective pension authorities for other employees including GCC Nationals as per applicable laws.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer 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.

3. Summary of significant accounting policies (continued)

3.28 Employee benefits (continued)

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Employees' incentive plan shares

The cost of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

Where the terms of an equity–settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share–based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity–settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non–vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 34).

3.29 Taxation

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the respective countries in which the Group operates.

3.30 Segment reporting

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

Refer to note 39 on Business Segment reporting.

3.31 Zakat

Zakat is only paid on behalf of shareholders in jurisdictions where zakat payment is made mandatory by the regulations of the jurisdictions. Such payment is made in accordance with the regulations of the jurisdictions.

3. Summary of significant accounting policies (continued)

3.32 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts are recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.33 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated at fair value through profit or loss (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.

3. Summary of significant accounting policies (continued)

3.33 Revenue and expense recognition (continued)

(iii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

3.34 Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Ijara, Musharaka, Salam, Mudaraba, Sukuk and Wakala.

Murabaha financing

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Ijara financing

Ijara financing is an agreement whereby the Group (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee. Ijara income is recognised on an effective profit rate basis over the lease term.

Musharaka

Musharaka is an Islamic contract in which two parties (Islamic financial institution and its customer) pool their respective funds to form a partnership. In Musharaka both parties are involved in management of the business/partnership. Profit is shared on the basis of pre-agreed ratio and loss is shared in the ratio of capital contribution. It's not mandatory in Musharaka for all parties to participate in the management of business. Practically, this form of investment is used by the Islamic financial institution to finance its customers.

3. Summary of significant accounting policies (continued)

3.34 Islamic financing (continued)

Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal. Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

Salam

Bai Al Salam is a sale contract where the customer (seller) undertakes to deliver/supply a specified tangible asset to the Group (buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

Sukuk

Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. It is asset-backed trust certificates evidencing ownership of an asset or its usufruct (earnings or benefits) and complies with the principle of Shari'ah.

4. Critical accounting judgements and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS requires the Management, in preparing the Group's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires Management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board of Directors (the "Board") to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.1 Critical judgments in applying the changes in 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 reflect the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- Models and assumptions used: The Group uses various models and assumptions in measuring ECL of financial assets. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer note 43 for more details on ECL.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.1 Critical judgments in applying the changes in Group's accounting policies (continued)

Valuation of financial instruments

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in note 41. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are estimated based on the terms of the instrument, and judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- when applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

Fair valuation of investment properties

The fair values of investment properties is based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on models whose inputs are observable in an active market such as market conditions, market prices, future rental income, etc.

The fair value movements on investment properties are disclosed in more detail in note 13.

Consolidation of Funds

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

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.1 Critical judgments in applying the changes in Group's accounting policies (continued)

Lease accounting under IFRS 16

The following are the critical judgments in the application of IFRS 16, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised;
- classification of lease arrangements (when the entity is a lessor).

Tax positions

The income tax positions taken are considered by the Group to be supportable and are intended to withstand challenge from tax authorities. However, it is acknowledged that these positions are uncertain and include interpretations of complex tax laws which could be disputed by tax authorities. Evolving insights, for example following final tax assessments for prior years, can result in additional tax burdens or benefits, and new tax risks may arise.

The Group judges these positions on their technical merits on a regular basis using all the information available (legislation, case law, regulations, established practice, authoritative doctrine as well as the current state of discussions with tax authorities, where appropriate). A liability is recorded for each item that is not probable of being sustained on examination by the tax authorities, based on all relevant information. The liability is calculated taking into account the most likely outcome or the expected value, depending on which is thought to give a better prediction of the resolution of each uncertain tax position in view of reflecting the likelihood of an adjustment being recognized upon examination. These estimates are based on facts and circumstances existing at the end of the reporting period. The tax liability and income tax expense include expected penalties and late payment interests arising from tax disputes.

Management has used its best estimate of the correct value of liability to recognize in each case, which includes a judgement on the length of the future time period to use in such assessments.

4.2 Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Group's consolidated financial statements:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Exposure at default (EAD) - The EAD over lifetime of a financial asset is modelled taking into account expected repayment profile. We apply specific credit conversion factors (CCFs) in order to calculate an EAD value. Conceptually, the EAD is defined as expected amount of credit exposure of counter party at the time of default. In the instance where a transaction involves an unfunded exposure, CCF models are applied in order to estimate amount of unfunded exposures are drawn down in case of default. The calibration of such parameters (CCFs) are based on internal historical data and consider counterparty and product type specifics.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.2 Sources of estimation uncertainty (continued)

During the year, the Bank recalibrated its CCFs used in the computation of EAD in relation to the ECL against the Bank's unfunded letters of guarantees. The change in accounting estimate was based on management's analysis of the historical conversion ratio of guarantees issued by the Bank over one full economic cycle while considering a potential increase in the conversion ratio in short to medium term due to the impact of Covid-19 on the economy.

- Probability of default (PD) constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss given default (LGD) is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Impairment of goodwill and intangible assets

Goodwill is tested at least annually for impairment, along with the intangible assets and other assets of the Group's cash-generating units.

Determining whether goodwill or intangible assets are impaired requires an estimation of the value in use of the business being tested for impairment and of the cash-generating units to which these assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, taking into account the achievability of long-term business plans and macroeconomic assumptions underlying the valuation process, and a suitable discount rate in order to calculate present value.

Lease accounting under IFRS 16

The following are key estimations that the management has used in the process of applying the Group's accounting policies for IFRS 16 and that have the most significant effect on the amounts recognised in the Group's consolidated financial statements:

- determination of the appropriate rate to discount the lease payments;
- assessment of whether a right-of-use asset is impaired.

Fair valuation of assets acquired and liabilities assumed in business combination

As stated in note 3.6 above, the identifiable assets acquired and the liabilities assumed in business combination are recognised at their fair value. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

5. Update on prospective changes in reference rates (Ibor)

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform Interbank Offer Rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has significant exposure to IBORs through its financial instruments that will be either replaced or reformed as part of this market-wide initiative. There is significant uncertainty over the timing and the methods of transition across the jurisdictions within which the Group operates. The Group anticipates that IBOR reform will have significant risk management and accounting impacts across all of its business lines. The Group has established a cross-functional IBOR Committee to manage its transition from IBORs to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which assets and liabilities are referenced to IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee reports to the Management Executive Committee (MEC) and collaborates with other business functions as needed.

The IBOR Committee is working closely with underwriting departments across the Group for new lending products indexed to the alternative nearly risk-free rate in impacted jurisdictions. Transition away from IBORs to the risk free "overnight reference rate" regime will affect the pricing of deposits, loans, hedging instruments and floating rate debt securities and the valuation of collateral. The following risk free rates (RFRs) will replace IBORs in their respective currencies:

- USD – SOFR (Secured overnight funding rate)
- GBP – SONIA (Sterling overnight index average)
- EUR – ESTER (Euro short term rate)
- CHF – SARON (Swiss average rate overnight)
- JPY – TONAR (Tokyo overnight average rate)

Financial assets and liabilities

The Group has exposure to LIBOR and other IBORs through its floating-rate financial assets and liabilities. The reform of IBORs has included a change to the underlying calculation methodology but it is not expected that the IBOR benchmark rates will be replaced by RFRs until after 2021.

Wholesale Banking Group has completed their review on assets and in-scope bilateral facilities (against loan-linked ISDA administered by ADCB Treasury). Treasury Group has completed a review of investment securities (bonds) and legacy derivatives. Legacy derivatives that reference IBORs will transition to the appropriate RFR either through adherence to ISDA Benchmark fallback protocol or by bi-lateral repapering. A review of treasury loans has been completed and all new treasury loans incorporate Loan Market Association (LMA) IBOR fallback provisions. Further, the Committee took a decision not to originate floating rate commercial paper or treasury deposits maturing beyond 2021. Consumer Banking Group does not have any significant exposure, however, leverage and overdraft products are under analysis with business and credit teams for any potential impact.

The Group has floating-rate liabilities indexed to IBORs of the currency of the liability. There have been no modifications to financial liabilities during the years ended December 31, 2020 and December 31, 2019 as a result of IBOR reform. However, the IBOR Committee and the Group's treasury and legal teams will manage the transition of the Group's floating rate bond financial liabilities at the appropriate time.

5. Update on prospective changes in reference rates (Ibor) (continued)

Derivatives held for risk management purposes and hedge accounting

The Group holds derivatives for trading purposes (predominantly related to offering hedging solutions to customers) and for risk management purposes designated as hedges against eligible assets and liabilities (Note 9). The interest rate and cross currency interest rate derivative instruments have floating legs that are indexed to various IBORs. The Group's interest rate and cross currency derivative instruments are governed by the industry standard International Swaps and Derivatives Association (ISDA) Master Agreements that incorporate by reference the 2006 ISDA definitions. 2006 ISDA definitions provide for the basic framework for the documentation of bilaterally negotiated interest rate and currency derivative transactions. The ISDA has been working alongside market participants on initiatives to identify fall backs for derivatives contracts which are governed by ISDA-published terms and which reference certain key IBORs. On October 23, 2020, ISDA launched the IBOR fall backs supplement, a supplement to the 2006 ISDA definitions, and the IBOR fall backs protocol. These documents will take effect on January 25, 2021. IBOR fall backs protocol will enable adhering parties to amend legacy derivative transactions to include the updated rates and fall backs. The Group has adhered to the IBOR fall backs protocol. Derivative transactions incorporating the 2006 ISDA definitions that are entered into by the Group on or after January 25, 2021 will automatically include the new fall back provisions as set out in the IBOR fall backs supplement without any further action needed, regardless of whether parties adhere to the IBOR fall backs protocol or not.

In accordance with the transition provisions, the Group has adopted the amendments to IFRS 9 and IFRS 7, retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. The reliefs will cease to apply when the uncertainty arising from interest rate benchmark reform is no longer present.

In summary, the reliefs provided by the amendments and applied by the Group are as follows:

- When considering the 'highly probable' requirement, the Group has assumed that the IBOR interest rates upon which hedged items are based do not change as a result of IBOR reform.

- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the IBOR interest rates upon which the cash flows of the hedged items and the interest rate swaps that hedge them are based are not altered by IBOR reform.

- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

- The Group has assessed whether the hedged IBOR risk component is a separately identifiable risk only when it first designates a hedged item in a fair value hedge and not on an ongoing basis.

The Group is materially exposed to certain (or mainly to US dollar Libor) benchmark however it has not incorporated any changes in assumptions for effected benchmark into its expectation or calculation as the timing and effect of the IBOR reform is still uncertain.

Transition approach will be different considering the product and counterparty involved, the derivative contracts facing central counterparties will follow the market wide standardized approach to these reforms while bilateral contracts will be negotiated with the counterparty on case by case basis.

5. Update on prospective changes in reference rates (Ibor) (continued)

IBORs are 'forward-looking' term rates and published tenor wise, whereas RFRs are typically 'backward-looking' rates, as they are based upon overnight rates from actual transactions, and are therefore published at the end of the overnight borrowing period. Furthermore, IBORs include a credit spread over the RFR. Therefore, to convert existing contracts and agreements to RFRs, adjustments for term and credit spread may need to be applied to RFRs to enable the two benchmarks to be economically equivalent upon transition.

If a hedging relationship impacted by IBOR reform has not been highly effective throughout the financial reporting period, then the Group evaluates whether the hedge is expected to be highly effective prospectively and whether the effectiveness of the hedging relationship can be reliably measured. The hedging relationship will not be discontinued as long as it meets all criteria for hedge accounting, with the exception of the requirement that the hedge was actually highly effective.

In these hedging relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate and foreign currency; and
- differences in maturities or timing of cash flows of the swap and the notes.

Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participants' expectations for when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and hedging instrument, which may lead to hedge ineffectiveness. The Group has applied its best judgment to analyse market expectations when determining the fair value of the hedging instrument and present value of estimated cash flows of the hedged item.

The Group's risk exposure is directly affected by IBOR reform, across both its cash flow hedges and fair value hedges as IBOR-linked derivatives are designated as a hedge instrument against its fixed and floating interest rate financial assets and liabilities.

The following table summarises the significant hedging notional values impacted by the IBOR reform as at December 31, 2020:

		AED '000			
Current benchmark	**Convergence to RFR**	**Fair value hedges**	**Cash flow hedges**	**Total**	**Hedge item**
USD Libor	Secured overnight financing rate (SOFR)	**72,937,063**	**953,142**	**73,890,205**	Fair value hedged items include fixed rate investments in debt securities, borrowings and loans and advances while cash flow hedged items include floating rate borrowings and investment securities.
All other IBORs	Various other RFRs	**86,279**	**1,434,375**	**1,520,654**	Fair value hedged items include fixed rate customer deposits, debt securities while cash flow hedged items include floating rate loans and advances.

5. Update on prospective changes in reference rates (Ibor) (continued)

Specific policies applicable from January 1, 2020 for hedges directly affected by IBOR

On initial designation of the hedging relationship, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated. For the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform.

The Group will cease to apply the amendments to its effectiveness assessment of the hedging relationship when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedging relationship is discontinued.

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group

The Covid-19 pandemic has caused an unprecedented human and health crisis. The measures necessary to contain the virus have triggered an economic downturn. Since the pandemic's outbreak, prices of assets have fallen sharply, and in some cases endured decline of 30 percent or more at the trough. While some countries have eased the lockdown, the relaxation has been gradual and, in some cases, they have had to re-impose stricter measures to deal with renewed outbreaks. Credit spreads have jumped and volatility has spiked to levels reminiscent of the global financial crisis with significant deterioration in market liquidity.

Central banks across the world have stepped in with measures to protect the stability of the global economy with a wide range of measures from easing of interest rates, to asset purchase programmes besides infusing significant liquidity into the economy. By effectively stepping in as "buyers of last resort" and helping contain upward pressures on the cost of credit, central banks are ensuring that households and firms continue to have access to credit at an affordable price. To date, central banks have announced plans to expand their provision of liquidity - including through loans and asset purchases.

In response to this crisis, Central Bank of the UAE (CBUAE) has instituted measures in the UAE to support businesses and households. These measures are expected to remain in place till the date announced by CBUAE as noted below. Some of the measures announced by CBUAE under Targeted Economic Support Scheme (TESS), which would mitigate the impact of Covid-19 are discussed below:

A. Temporary relief to customers

Temporary relief from the payments of principal and/or interest/profit on outstanding loans for all Covid-19 affected private sector corporates, small and medium enterprises and individuals domiciled in UAE. To incentivize UAE banks to participate in the TESS programme:

- CBUAE has granted an extension of AED 50 billion capital buffer for the entire banking industry till December 31, 2021. This will facilitate additional lending capacity of banks.
- CBUAE has granted an extension of the zero cost funding facility against eligible collateral until June 30, 2021. The value of the zero cost funding programme is AED 50 billion.

B. Liquidity and capital stimulus package

The effects of this crisis on the liquidity/funding and capital risks and profile of the banking system are evolving and subject to ongoing monitoring, as governments around the world intervene to provide various stimulus package to mitigate the adverse effects of the crisis. CBUAE has introduced the following stimulus package relating to liquidity and capital requirements to support the banking industry in the UAE through this disruption and to enable banks to fully pass on the TESS related benefits to end customers:

- CBUAE has a reduced requirement of maintaining minimum liquidity coverage ratio (LCR) of 70% (from 100%), minimum net funding ratio (NSFR) of 90% (from 100%) and minimum eligible liquid assets ratio (ELAR) of 7% (from 10%). The overall release of regulatory liquidity buffers is estimated at AED 95 billion. This liquidity can be used to compensate for the effect of posting collateral required by the TESS programme.
- To improve liquidity within UAE banking system, CBUAE halved the reserve requirement for demand deposit of all banks from 14% to 7% which is expected to release AED 61 billion additional liquidity for the UAE banking sector. The aggregate value of all the above capital and liquidity measures adopted by CBUAE is AED 256 billion which approximates to 17% of UAE GDP.
- To counter volatility in financial markets and its impact on regulatory capital, CBUAE has issued a new requirement for all banks to apply a prudential filter to IFRS 9 expected credit loss (ECL) provisions. Any increase in the provisioning compared to December 31, 2019 will be partially added back to regulatory capital while IFRS 9 provisions will be gradually phased-in during a five-year period, ending December 31, 2024.

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group (continued)

B. Liquidity and capital stimulus package (continued)

- CBUAE has allowed banks to tap into capital conservation buffer and domestic systemically important banks buffer (D-SIB) to the extent of 60% and 100% respectively till December 31, 2021.
- Planned implementation of certain Basel III capital requirements will be postponed to March 31, 2021.

Although the measures mentioned above are not exhaustive and may not fully counteract the impact of Covid-19 in the short run, they will mitigate the long-term negative impact of the pandemic.

In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements through its Liquidity Contingency Plan and stress tests reflecting the current economic scenarios. As at the reporting date, the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

IASB Guidance and Joint Guidance issued by Central Bank of the UAE, Dubai Financial Services Authority (the "DFSA") and the Financial Services Regulatory Authority (the "FSRA")

The Bank recognises any changes made to ECL to estimate the overall impact of Covid-19 will be subject to very high levels of uncertainty as little reasonable and supportable forward-looking information is currently available on which to base those changes. This makes it even more important that ECL process remains robust since any significant overstatement of ECL could lead to unnecessary tightening in credit conditions which may not have a salutary economic impact. Accordingly, IASB and regulatory bodies in the UAE have proposed certain measures to manage the impact of economic uncertainty on ECL while remaining compliant with IFRS.

On March 27, 2020, the IASB issued a guidance note on accounting for expected credit losses in the light of current uncertainty arising from the Covid-19 pandemic. The guidance note states that IFRS 9 requires the application of judgement and allows entities to adjust their approach to determining ECLs in different circumstances. A number of assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold in the current environment. Entities should not continue to apply their existing ECL methodology mechanically.

On April 22, 2020, CBUAE issued guidance on treatment of IFRS 9 ECL in context of the Covid-19 crises. The guidance requires banks to identify customers who are temporarily and mildly impacted by Covid-19 (Group 1) and those who are significantly impacted by Covid-19 in the long term (Group 2). The guidance also requires the Bank to review the credit conversion factor, staging and run scenarios to ascertain the impact of the macro-economic variables. ADCB has taken necessary steps to comply with this guidance. On October 27, 2020 CBUAE has issued further guidelines that required moving all accounts that are significantly impacted by Covid-19 (Group 2) to stage 2. The revised guidelines required banks to disclose all deferrals provided to the all customers irrespective of whether these deferrals were provided under TESS scheme or outside of the TESS scheme.

Further, to assess significant increase in credit risk (SICR) IFRS 9 requires that entities assess changes in the risk of a default occurring over the expected life of a financial instrument. Both the assessment of SICR and the measurement of ECLs are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. Entities are required to develop estimates based on the best available information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, consideration should be given both to the effects of Covid-19 and the significant government support measures being undertaken.

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group (continued)

IASB Guidance and Joint Guidance issued by Central Bank of the UAE, Dubai Financial Services Authority (the "DFSA") and the Financial Services Regulatory Authority (the "FSRA") (continued)

In line with the IASB guidance, CBUAE, DFSA and FSRA introduced a joint guidance which stipulates the following considerations while measuring ECLs:

- a temporary moratorium on payments, or a waiver of a breach of covenant, in itself is not considered an SICR trigger in the current environment. This would also be the case even if a moratorium results in a loss for the Bank (e.g., if interest payments are reduced or waived), if it is provided irrespective of the borrowers' individual circumstances.
- due to the current unusual circumstances the 30 days past due (DPD) backstop assumption in some cases has been rebutted.
- the Bank distinguishes between obligors whose long-term credit risk is unlikely to be significantly affected by Covid-19 from those who may be more permanently impacted. Obligors operating in certain industries are likely to be more affected compared to others. These factors are considered to determine whether there is a case of SICR.
- most modifications of contracts as a result of Covid-19 are not substantial modifications.

Impact of Covid-19 on ADCB Group

ADCB's corporate portfolio is primarily UAE focused, therefore the Central Bank TESS programme directly aids most of the corporate portfolios with the exception of government-related enterprises/government debt which we believe will be able to manage this crisis based on their ownership and economic importance to the country. All customers who have availed of any deferral, have been classified as Group 1 or Group 2 as per the CBUAE definitions. Customers have been provided deferrals under TESS and the subsequent repayment/account performance post the end of the deferral period is monitored.

ADCB's retail portfolio is expected to see more immediate term impact on account of reduced pay/job-losses/cash flow stress in businesses. ADCB is fully committed to help these customers through this turbulent period as directed by CBUAE. Small and medium enterprises (SME) customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Bank.

Al Hilal Bank, a fully owned subsidiary of ADCB, has a retail portfolio primarily of UAE nationals employed in government owned entities. This is a segment that we believe will be insulated from job cuts and salary reductions, and as such the impact on this portfolio would be considerably muted.

Impact on ECL

ADCB's IFRS 9 framework is implemented and is based on robust internal models. ADCB's Group Risk Management has independent model development and model validation teams who oversee the re-development/calibration and model validations on policy defined frequencies. ADCB also relies on external model validation for ensuring the ECL outputs are relevant and reflect the latest portfolio risk composition.

For both 2020 numbers and projections, ADCB has updated its macro-economic variables by incorporating changes to economic scenarios, reduction in oil prices, drop in real estate prices and a negative GDP growth. These changes ensures that the ECL charge fully reflects the current prevailing macro-economic scenario. The impact of these changes is included in the net impairment charges of AED 3,993 million.

Given that ADCB's portfolio is largely UAE based, all the government support measures will help mitigate the impact of ECL on its portfolio.

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group (continued)

Governance updates related to TESS

The Group has implemented robust governance around TESS deferrals. TESS deferrals follow a credit approval process and are approved after proper evaluation of customer needs, past performance and impact of Covid-19 on customer's credit worthiness. In line with the Joint Guidance, the risk policy team has issued guidelines to ensure that TESS deferrals adhere to the prescribed CBUAE rules. All deferrals are tracked by credit operations with adequate checks and balances. TESS deferrals are monitored on a weekly basis by Group Risk division to ensure compliance with the CBUAE rules and Joint Guidance. The decisions on macro-economic adjustments, grouping, etc. are all documented via policies and approved by the relevant risk committees.

Payment deferrals

The Group has drawn AED 8,881,745 thousand of the TESS related funds allocated to it, of which AED 2,864,373 thousand has been repaid up to the date of approval of these financial statements. Further, the Group has passed on AED 11,018,457 thousand to the customers by means of payment deferrals under TESS, of which AED 4,819,124 thousand has been subsequently settled by customers as at December 31, 2020. Payment deferrals were given to corporate, SME and retail customers in line with the CBUAE regulations ensuring that the customers impacted by Covid-19 are supported by temporary payment deferrals.

Summary of payment deferrals (including TESS and other deferrals):

	As at December 31, 2020		
	Wholesale banking AED'000	Retail banking AED'000	Total AED'000
TESS deferrals extended during the year	9,753,239	1,265,218	11,018,457
Other deferrals extended during the year	1,827,494	356	1,827,850
Total payment deferrals extended during the year	11,580,733	1,265,574	12,846,307
Less: Payment deferrals repaid during the year	(4,867,847)	(500,762)	(5,368,609)
Payment deferrals outstanding	6,712,886	764,812	7,477,698

Summary of payment deferrals, exposure and outstanding impairment allowance by product:

	As at December 31, 2020		
	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Overdrafts (corporates)	52,645	977,135	1,157
Retail loans	764,813	5,823,365	383,325
Corporate loans	5,891,809	53,308,851	993,107
Other facilities	768,431	770,722	16,369
Total	7,477,698	60,880,073	1,393,958

Product wise classification of retail loans:

	As at December 31, 2020		
	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Personal loans (including credit cards)	722,781	4,667,234	344,432
Mortgage loans	24,625	998,427	29,726
Auto loans	17,407	157,704	9,167
Total	764,813	5,823,365	383,325

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group (continued)

Payment deferrals (continued)

Summary of payment deferrals, exposure and outstanding impairment allowance by economic sector:

	As at December 31, 2020		
Economic activity sector	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Energy	71,560	405,429	5,125
Trading	620,201	831,193	14,866
Real estate investment	3,025,303	24,471,305	497,902
Hospitality	735,534	8,189,391	238,292
Transport and communication	88,710	598,206	9,879
Personal	941,315	6,095,300	382,810
Government and public sector enterprises	398,331	2,524,793	960
Financial institutions (*)	719,243	9,202,981	68,479
Manufacturing	105,620	541,688	148,724
Services	57,435	333,912	8,007
Others	714,446	7,685,875	18,914
Total	7,477,698	60,880,073	1,393,958

(*) includes investment companies

Joint Guidance requires that all customers who avail payment deferrals are to be grouped into two categories:

Group 1

Customers that are temporarily and mildly impacted by the Covid-19 crisis. For these customers, the payment deferrals are believed to be effective and thus the economic value of the facilities are not expected to be materially affected. These customers are expected to face liquidity constraints without substantial changes in their creditworthiness.

Group 2

Customers that are expected to face substantial changes in their credit worthiness beyond liquidity issues.

To comply with the above requirements, the Group reviewed the top 70% of its wholesale exposures on a case-by-case basis to ensure the correct classification of Group 1 and 2 exposures. For the remainder of the portfolio, the Group has adopted an approach based on industry sector, current internal rating and loan-to-value criteria for asset backed financing. The grouping policy was reviewed and approved by the Management Risk & Credit Committee of the Bank.

Based on the above considerations, customers availing payment deferrals have been categorised as follows:

		As at December 31, 2020			
Segment	Group	Number of customers	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Wholesale banking (*)	Group 1	643	5,021,176	48,890,463	287,714
	Group 2	203	1,691,709	6,166,245	722,919
		846	6,712,885	55,056,708	1,010,633
Retail banking	Group 1	18,483	352,210	4,945,479	43,380
	Group 2	12,864	412,603	877,886	339,945
		31,347	764,813	5,823,365	383,325
Total		32,193	7,477,698	60,880,073	1,393,958

(*) for the purpose of this disclosure, high net worth clients and their businesses are included in wholesale banking

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group (continued)

Payment deferrals (continued)

The Group has aligned its internal policies on ECL and staging in line with "Joint Guidance Note to Banks and Finance Companies on treatment of IFRS 9 expected credit loss provisions in the UAE in the context of the Covid-19 crisis" ("Joint Guidance") dated April 4, 2020.

The Group has taken the following steps to ensure that the ECL practices remain prudent in light of the payment deferrals provided to the customer.

- **Changes in macro-economic variables**

  The Group runs ECL models based on forward looking assumptions. However, based on the CBUAE directives, latest macro-economic variables and projections have been updated in ECL models to reflect the current economic situation. In addition to this, the Bank continues to hold overlays that has been set aside to cover Covid-19 impact.

- **Review of exposure at default (EAD)**

  The Group has reviewed the credit conversion factors (CCF) of unfunded exposures and the likelihood of these facilities being drawn. Further, the Group has increased the CCF of unutilised overdrafts and the revolving credit facilities of its wholesale portfolio as part of this review.

- **Probability of default (Rating changes)**

  The Group continues to rate its customers using its internal models and customers with weak financial profiles will have rating downgrades thereby impacting their probability of default (PD) and ECL. This is to ensure any additional ECL required due to PD deterioration is taken into the ECL calculation.

  Average PD and loss given default (LGD) of customers availing deferral benefits:

	Weighted average PD		Weighted average LGD	
Group	**Wholesale banking**	**Retail banking**	**Wholesale banking**	**Retail banking**
Group 1	**3.51%**	**1.84%**	**17.59%**	**63.25%**
Group 2	**24.83%**	**52.16%**	**21.32%**	**60.40%**
Segment average	**5.90%**	**9.33%**	**18.01%**	**62.82%**

- **Migration of staging**

  The CBUAE regulations allows the staging of the Group 1 customers to remain unchanged for the duration of the crisis. Similarly, the Group 2 customers will not be normally migrated to stage 3 based on their financial performance as the impact of Covid-19 is not expected to be permanent in nature. The Bank has applied these principles, however some of the customer's stage has been downgraded post the end of the deferral period. In addition, as per the latest CBUAE guidelines, Group 2 customers who were under stage 1 have been migrated to stage 2.

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group (continued)

Payment deferrals (continued)

The stage wise classification of customers availing payment deferrals (by business segment):

			As at December 31, 2020		
Segment	**Stage**	**Group**	**Payment deferrals AED'000**	**Exposure AED'000**	**Impairment allowance AED'000**
Wholesale banking	Stage 1	Group 1	4,736,298	46,919,251	206,500
		Group 2	-	-	-
			4,736,298	46,919,251	206,500
	Stage 2	Group 1	284,878	1,971,212	81,214
		Group 2	1,398,193	5,446,285	661,627
			1,683,071	7,417,497	742,841
	Stage 3	Group 1	-	-	-
		Group 2	273,125	501,597	57,628
			273,125	501,597	57,628
	POCI	Group 1	-	-	-
		Group 2	20,391	218,363	3,664
			20,391	218,363	3,664
Total			6,712,885	55,056,708	1,010,633
Retail banking	Stage 1	Group 1	352,210	4,945,479	43,380
		Group 2	-	-	-
			352,210	4,945,479	43,380
	Stage 2	Group 1	-	-	-
		Group 2	312,533	701,966	243,029
			312,533	701,966	243,029
	Stage 3	Group 1	-	-	-
		Group 2	100,070	175,920	96,916
			100,070	175,920	96,916
Total			764,813	5,823,365	383,325
Grand total			7,477,698	60,880,073	1,393,958

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group (continued)

Payment deferrals (continued)

Stage migration of exposure since January 1, 2020, of customers benefiting from payment deferrals (by business segment):

Wholesale banking	Stage 1 AED'000	Stage 2 AED'000	Stage 3(*) AED'000	POCI AED'000	Total AED'000
As at January 1, 2020	**46,481,920**	**5,871,434**	**253,732**	**139,318**	**52,746,404**
- Transfer from stage 1 to stage 2	(2,062,953)	2,062,953	-	-	-
- Transfer from stage 1 to stage 3	(121,410)	-	121,410	-	-
- Transfer from stage 2 to stage 1	855,062	(855,062)	-	-	-
- Transfer from stage 2 to stage 3	-	(40,362)	40,362	-	-
- Transfer from stage 3 to stage 2	-	36,618	(36,618)	-	-
Changes in exposure within same stage	1,766,632	341,916	122,711	79,045	2,310,304
As at December 31, 2020	**46,919,251**	**7,417,497**	**501,597**	**218,363**	**55,056,708**

Retail banking	Stage 1 AED'000	Stage 2 AED'000	Stage 3(*) AED'000	POCI AED'000	Total AED'000
As at January 1, 2020	**5,169,588**	**260,962**	**13,912**	**-**	**5,444,462**
- Transfer from stage 1 to stage 2	(472,014)	472,014	-	-	-
- Transfer from stage 1 to stage 3	(116,498)	-	116,498	-	-
- Transfer from stage 2 to stage 1	97,807	(97,807)	-	-	-
- Transfer from stage 2 to stage 3	-	(20,887)	20,887	-	-
- Transfer from stage 3 to stage 2	-	12,776	(12,776)	-	-
Changes in exposure within same stage	266,596	74,908	37,399	-	378,903
As at December 31, 2020	**4,945,479**	**701,966**	**175,920**	**-**	**5,823,365**

(*) as per CBUAE guidelines, the Group has extended payment deferrals under TESS only to stage 1 and stage 2 loans. Certain exposures had been subsequently migrated to stage 3 in exceptional circumstances where customer's debt servicing capacity was expected to be permanently impaired

6. Coronavirus (Covid-19) outbreak and its impact on ADCB Group (continued)

Payment deferrals (continued)

The internal rating classification of customers availing payment deferrals as at December 31, 2020:

	Group 1			Group 2			Total		
Internal rating	**Payment deferrals AED'000**	**Exposure AED'000**	**Impairment allowance AED'000**	**Payment deferrals AED'000**	**Exposure AED'000**	**Impairment allowance AED'000**	**Payment deferrals AED'000**	**Exposure AED'000**	**Impairment allowance AED'000**
Grades 1-4	1,034,679	14,316,154	5,114	72,000	340,239	870	1,106,679	14,656,393	5,984
Grades 5-6	3,516,261	31,476,312	166,409	536,148	3,211,019	449,325	4,052,409	34,687,331	615,734
Grade 7	402,295	2,790,499	107,941	778,077	1,847,316	201,977	1,180,372	4,637,815	309,918
Grades 8-10	-	-	-	291,519	710,605	56,504	291,519	710,605	56,504
Unrated	420,151	5,252,977	51,630	426,568	934,952	354,188	846,719	6,187,929	405,818
Total	**5,373,386**	**53,835,942**	**331,094**	**2,104,312**	**7,044,131**	**1,062,864**	**7,477,698**	**60,880,073**	**1,393,958**

7. Cash and balances with central banks, net

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Cash on hand	**1,682,035**	1,830,228
Balances with central banks (*)	**17,608,390**	2,854,588
Reserves maintained with central banks	**10,083,446**	15,379,030
Certificate of deposits with central banks	**228,201**	4,841,367
Gross cash and balances with central banks	**29,602,072**	24,905,213
Less: Allowance for impairment (Note 43.3)	**(465)**	(247)
Total cash and balances with central banks, net	**29,601,607**	24,904,966
The geographical concentration is as follows:		
Within the UAE	**28,592,453**	24,120,803
Outside the UAE	**1,009,619**	784,410
	29,602,072	24,905,213
Less: Allowance for impairment (Note 43.3)	**(465)**	(247)
	29,601,607	24,904,966

(*) includes overnight deposit amounting to AED 17,000,000 thousand (December 31, 2019 – AED nil) placed with CBUAE at 0.10% p.a.

Reserves maintained with central banks represent deposits with the central banks at stipulated percentages of its demand, savings, time and other deposits. These are available for day-to-day operations only under certain specified conditions.

8. Deposits and balances due from banks, net

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Nostro balances	**1,194,880**	1,151,543
Margin deposits	**2,735,002**	1,315,686
Time deposits	**5,071,201**	5,616,585
Wakala placements	**1,744,675**	3,305,700
Loans and advances to banks	**10,836,253**	11,725,422
Gross deposits and balances due from banks	**21,582,011**	23,114,936
Less: Allowance for impairment (Note 43.3)	**(46,569)**	(49,962)
Total deposits and balances due from banks, net	**21,535,442**	23,064,974
The geographical concentration is as follows:		
Within the UAE	**6,535,296**	8,013,181
Outside the UAE	**15,046,715**	15,101,755
	21,582,011	23,114,936
Less: Allowance for impairment (Note 43.3)	**(46,569)**	(49,962)
	21,535,442	23,064,974

9. Derivative financial instruments

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

A derivative is a financial instrument or other contract with all three of the following characteristics:
(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 fulfill their obligation. This risk is monitored on an ongoing basis through market risk limits on exposures and credit risk assessment of counterparties using the same techniques as those of lending activities.

9. Derivatives financial instruments (continued)

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.

9. Derivatives financial instruments (continued)

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

	Fair values		
	Assets AED'000	Liabilities AED'000	Notional AED'000
As at December 31, 2020			
Derivatives held or issued for trading			
Foreign exchange derivatives	**526,498**	**421,507**	**304,195,751**
Interest rate and cross currency swaps	**6,298,336**	**6,258,030**	**232,437,104**
Interest rate and commodity options	**895,776**	**656,480**	**64,008,310**
Forward rate agreements	**76**	**482**	**7,248,120**
Commodity and energy swaps	**136,202**	**126,151**	**1,563,427**
Swaptions	**577,111**	**493,621**	**72,938,327**
Total derivatives held or issued for trading	**8,433,999**	**7,956,271**	**682,391,039**
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	**2,340,794**	**2,774,791**	**73,023,342**
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	**57,361**	**110,585**	**3,942,375**
Forward foreign exchange contracts	**314,242**	**13,401**	**9,297,535**
Total derivatives held as cash flow hedges	**371,603**	**123,986**	**13,239,910**
Total derivative financial instruments	**11,146,396**	**10,855,048**	**768,654,291**
As at December 31, 2019			
Derivatives held or issued for trading			
Foreign exchange derivatives	532,891	521,455	331,658,208
Interest rate and cross currency swaps	4,241,279	4,234,121	265,245,648
Interest rate and commodity options	421,623	331,066	57,957,412
Forward rate agreements	111	26	560,031
Futures (exchange traded)	15	-	7,254,310
Commodity and energy swaps	157,052	150,144	2,091,119
Swaptions	213,455	219,663	40,292,838
Total derivatives held or issued for trading	5,566,426	5,456,475	705,059,566
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	1,050,963	1,421,646	82,493,134
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	76,819	51,881	7,000,783
Forward foreign exchange contracts	95,509	19,889	8,285,366
Total derivatives held as cash flow hedges	172,328	71,770	15,286,149
Total derivative financial instruments	6,789,717	6,949,891	802,838,849

The notional amounts indicate the volume of transactions and are neither indicative of the market risk nor credit risk. Refer note 45 for maturity profile of notional value of derivatives held for hedging purpose.

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

	2020 AED'000	2019 AED'000
Net change in the fair value of the hedged items attributable to risk hedged	**125,633**	(997,113)
Net change in the fair value of the hedging instruments	**(94,033)**	950,115
Fair value hedging ineffectiveness gains/(losses)	**31,600**	(46,998)
Add: Cash flow hedging ineffectiveness gains	-	365
Net hedge ineffectiveness gains/(losses)	**31,600**	(46,633)

9. Derivatives financial instruments (continued)

The table below provides the Group's forecast of net cash flows in respect of its cash flow hedges and the periods in which these cash flows are expected to impact consolidated income statement, excluding any hedging adjustment that may be applied.

Forecasted net cash flows Year	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to less than 2 years AED'000	2 years to less than 5 years AED'000	More than 5 years AED'000	Total AED'000
2020	**197,444**	**93,852**	**2,025**	**(526)**	**(26,174)**	**266,621**
2019	30,421	64,672	34,141	25,633	-	154,867

As at December 31, 2020, the Group received cash collateral of AED 1,690,099 thousand (December 31, 2019 - AED 758,274 thousand) and bonds with fair value of AED 922,863 thousand (December 31, 2019 – AED 186,117 thousand) against positive fair value of derivative assets.

As at December 31, 2020, the Group placed cash collateral of AED 2,748,588 thousand (December 31, 2019 – AED 1,315,686 thousand) and bonds of AED 3,313,735 thousand (December 31, 2019 - AED 1,956,945 thousand) against the negative fair value of derivative liabilities. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

10. Investment securities

	UAE AED'000	Other GCC(*) countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2020				
At fair value through other comprehensive income				
Quoted:				
Government securities	16,752,097	14,404,246	7,742,358	38,898,701
Bonds – Public sector	9,822,747	1,914,715	4,312,979	16,050,441
Bonds – Banks and financial institutions	3,993,676	590,994	4,340,036	8,924,706
Bonds – Corporate	1,113,847	394,689	194,624	1,703,160
Equity instruments (**)	261,336	110,077	312,901	684,314
Mutual funds	-	-	84,853	84,853
Total quoted	**31,943,703**	**17,414,721**	**16,987,751**	**66,346,175**
Unquoted:				
Equity instruments	166,548	-	37,550	204,098
Mutual funds	-	1,337	546	1,883
Total unquoted	**166,548**	**1,337**	**38,096**	**205,981**
Total investment securities at fair value through other comprehensive income	**32,110,251**	**17,416,058**	**17,025,847**	**66,552,156**
At amortised cost				
Quoted:				
Government securities	5,009,526	4,368,820	4,150,655	13,529,001
Bonds – Public sector	2,536,387	1,253,712	2,206,558	5,996,657
Bonds – Banks and financial institutions	149,026	-	366,395	515,421
Bonds – Corporate	1,604,541	-	20,054	1,624,595
Total quoted	**9,299,480**	**5,622,532**	**6,743,662**	**21,665,674**
Less: Allowance for impairment (Note 43.3)	**(2,253)**	**(1,512)**	**(8,081)**	**(11,846)**
Total investment securities at amortised cost	**9,297,227**	**5,621,020**	**6,735,581**	**21,653,828**
Total investment securities	**41,407,478**	**23,037,078**	**23,761,428**	**88,205,984**

(*) Gulf Cooperation Council
(**) includes investments in perpetual bonds issued by other banks

10. Investment securities (continued)

	UAE AED'000	Other GCC countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2019 (restated) (Note 53)				
At fair value through other comprehensive income				
Quoted:				
Government securities	11,991,052	16,262,483	9,335,345	37,588,880
Bonds – Public sector	10,209,692	1,780,786	4,695,439	16,685,917
Bonds – Banks and financial institutions	6,882,385	479,304	5,083,594	12,445,283
Bonds – Corporate	1,302,004	473,176	302,977	2,078,157
Equity instruments (*)	251,237	110,809	81,623	443,669
Mutual funds	72,201	-	86,990	159,191
Total quoted	30,708,571	19,106,558	19,585,968	69,401,097
Unquoted:				
Government securities	3,509,814	174,598	-	3,684,412
Bonds – Banks and financial institutions	-	-	134,226	134,226
Equity instruments	183,077	-	37,655	220,732
Mutual funds	-	1,615	580	2,195
Total unquoted	3,692,891	176,213	172,461	4,041,565
Total investment securities	34,401,462	19,282,771	19,758,429	73,442,662

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

As at December 31, 2020, the allowance for impairment on debt instruments designated at FVTOCI amounting to AED 229,820 thousand (December 31, 2019 - AED 260,417 thousand) (Note 43.3) is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

The Group hedges interest rate and foreign currency risks on certain fixed rate and floating rate investments through interest rate and currency swaps and designates these as fair value and cash flow hedges, respectively. The net negative fair value of these swaps at December 31, 2020 was AED 2,753,972 thousand (December 31, 2019 – net negative fair value AED 1,010,614 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement.

The Group entered into repurchase agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged remains with the Group. The bonds placed as collateral are governed under Global Master Repurchase Agreements (GMRA). The following table reflects the carrying value of these bonds and the associated financial liabilities:

	As at December 31, 2020		As at December 31, 2019	
	Carrying value of pledged securities AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged securities AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**15,060,298**	**13,027,819**	1,041,439	851,056

Further, the Group pledged investment securities with fair value amounting to AED 3,313,735 thousand (December 31, 2019 – AED 1,964,034 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remains with the Group.

11. Loans and advances to customers, net

	As at December 31 2020 AED'000	As at December 31 2019 restated (*) AED'000
Overdrafts (retail and corporate)	**9,834,901**	12,682,973
Retail loans	**43,176,876**	46,664,157
Corporate loans	**183,898,332**	180,835,988
Credit cards	**4,252,266**	4,946,370
Other facilities	**9,290,855**	10,037,002
Gross loans and advances to customers	**250,453,230**	255,166,490
Less: Allowance for impairment (Note 43.3)	**(11,477,528)**	(7,333,410)
Total loans and advances to customers, net	**238,975,702**	247,833,080

(*) refer note 53

For Islamic financing assets included in the above table, refer note 24.

The Group hedges certain fixed rate and floating rate loans and advances to customers for interest rate risk using interest rate swaps and designates these instruments as fair value and cash flow hedges, respectively. The net positive fair value of these swaps at December 31, 2020 was AED 36,933 thousand (December 31, 2019 - net positive fair value of AED 28,252 thousand).

12. Investment in associates

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

	AED'000
As at January 1, 2019	205,158
Addition on business combinations (Note 53)	197,855
Share in profit of associates	17,765
Dividend received from associates	(14,194)
Impact of currency translation	1,184
As at December 31, 2019	**407,768**
Share in profit of associates	**18,005**
Dividend received from associates	**(9,647)**
Impairment charge (Note 33)	**(18,673)**
Transfer to held for sale (Note 35)	**(101,347)**
Disposal during the year	**(40,414)**
Impact of currency translation	**176**
As at December 31, 2020	**255,868**

Investment in Al Hilal Global Balance Fund, one of the associates, was liquidated during the year and the carrying value of investment was fully realised on liquidation resulting in no gain or loss on disposal of associate.

For balances and transactions with associates, refer note 37.

12. Investment in associates (continued)

Details of the investment in associates as at December 31, 2020 are as follows:

Name of associate	Effective ownership interest 2020	2019	Country of incorporation	Principal activities
Four N Property LLC	**35.00%**	35.00%	UAE	Residential facilities for lower income group.
Orient UNB Takaful PJSC(1)	**47.54%**	47.54%	UAE	General insurance services.
Arab Orient Takaful Insurance Company(1)	**19.96%**	19.32%	Egypt	General insurance services.
Al Hilal Global Sukuk Fund	**10.14%**	31.89%	UAE	Investment activities.
Al Hilal GCC Equity Fund	**75.60%**	48.99%	UAE	Investment activities.
Al Hilal Global Balance Fund(2)	**-**	76.43%	UAE	Investment activities.

(1) held for sale; (2) liquidated

13. Investment properties

	AED'000
As at January 1, 2019	576,671
Addition on business combinations (Note 53)	1,180,799
Additions during the year	8,550
Disposals during the year	(5,859)
Revaluation of investment properties	(67,153)
Impact of currency translation	699
As at December 31, 2019	**1,693,707**
Disposals during the year	**(4,574)**
Revaluation of investment properties	**(45,388)**
Impact of currency translation	**211**
As at December 31, 2020	**1,643,956**

For the year 2020, net losses from investment properties include net gains of AED 416 thousand (2019: net gains of AED 417 thousand) on disposal of investment properties.

Additions during the year represent real estate acquired on settlement of certain loans and advances. These being non-cash transactions have not been reflected in the consolidated statement of cash flows.

Fair valuations

Valuations are carried out by registered independent valuers having an appropriate recognised professional qualification and experience in the location and category of the property being valued.

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

The valuation methodologies considered by external valuers include:

- Direct comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued.

All investment properties of the Group are primarily located within the UAE.

13. Investment properties (continued)

Lease receivables

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

	2020 AED'000	2019 AED'000
Rental income	**82,259**	82,563
Direct operating expenses	**23,475**	24,236

Operating leases relate to properties owned by the Group with varied lease terms, with an option to extend the lease term. All operating lease contracts contain market review clause in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

	2020 AED'000	2019 AED'000
Non-cancellable operating lease receivables		
Not later than one year	**39,038**	33,210
Later than one year but not later than five years	**-**	22,811
Later than five years	**-**	23,271
Total non-cancellable operating lease receivables	**39,038**	79,292

14. Other assets, net

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Interest receivable	**2,612,413**	3,286,001
Advance tax	**2,148**	3,451
Prepayments	**90,767**	139,116
Acceptances (Note 21)	**6,809,348**	12,726,229
Others	**584,864**	614,693
Gross other assets	**10,099,540**	16,769,490
Less: Allowance for impairment (Note 43.3)	**(18,127)**	(19,282)
Total other assets, net	**10,081,413**	16,750,208

15. Property and equipment, net

	Freehold properties and improvements AED'000	Leasehold improvements AED'000	Furniture, equipment and vehicles AED'000	Computer equipment, software and accessories AED'000	Capital work in progress AED'000	Right of use asset AED'000	Total AED'000
Cost or valuation							
As at January 1, 2019	889,322	207,809	225,392	1,196,599	79,606	-	2,598,728
Addition on business combinations (Note 53)	663,645	121,478	53,651	116,459	43,065	90,069	1,088,367
Recognition of right of use asset on adoption of IFRS 16	-	-	-	-	-	141,722	141,722
Exchange difference	3,416	1,630	696	1,599	109	3,429	10,879
Additions during the year	47	3,553	2,169	12,766	254,809	80,347	353,691
Transfers during the year	463	20,926	6,374	193,127	(220,890)	-	-
Transfer to expenses	-	-	-	-	(1,672)	-	(1,672)
Transfer to held for sale	(2,952)	(383)	(1,848)	(6,545)	-	-	(11,728)
Disposals during the year	(6,154)	(966)	(1,637)	(362)	-	-	(9,119)
As at December 31, 2019	**1,547,787**	**354,047**	**284,797**	**1,513,643**	**155,027**	**315,567**	**4,170,868**
Exchange difference	**936**	**542**	**725**	**1,068**	**50**	**31**	**3,352**
Additions during the year	**-**	**10,099**	**8,276**	**27,387**	**178,315**	**82,930**	**307,007**
Transfers during the year	**1,785**	**10,273**	**8,762**	**178,878**	**(199,698)**	**-**	**-**
Disposals during the year	**(2,653)**	**(5,395)**	**(14,302)**	**(20,481)**	**(728)**	**(66,652)**	**(110,211)**
As at December 31, 2020	**1,547,855**	**369,566**	**288,258**	**1,700,495**	**132,966**	**331,876**	**4,371,016**
Accumulated depreciation							
As at January 1, 2019	438,055	158,196	187,696	832,176	-	-	1,616,123
Exchange difference	(6)	80	53	80	-	136	343
Charge for the year (Note 32)	58,771	29,338	23,023	183,559	-	71,423	366,114
Transfer to held for sale	(983)	(102)	(1,300)	(5,333)	-	-	(7,718)
Disposals during the year	(69)	(81)	(1,071)	(344)	-	-	(1,565)
As at December 31, 2019	**495,768**	**187,431**	**208,401**	**1,010,138**	**-**	**71,559**	**1,973,297**
Exchange difference	**17**	**415**	**223**	**(186)**	**-**	**(146)**	**323**
Charge for the year (Note 32)	**62,023**	**39,299**	**24,019**	**189,388**	**-**	**89,182**	**403,911**
Disposals during the year	**(378)**	**(2,716)**	**(14,697)**	**(19,033)**	**-**	**(28,266)**	**(65,090)**
As at December 31, 2020	**557,430**	**224,429**	**217,946**	**1,180,307**	**-**	**132,329**	**2,312,441**
Carrying amount							
As at December 31, 2020	**990,425**	**145,137**	**70,312**	**520,188**	**132,966**	**199,547**	**2,058,575**
As at December 31, 2019	1,052,019	166,616	76,396	503,505	155,027	244,008	2,197,571

16. Intangible assets, net

	Goodwill AED'000	Other intangible assets: Trade mark and license AED'000	Core deposits AED'000	Customer relationships AED'000	Total AED'000
Cost or valuation					
As at January 1, 2019	18,800	-	-	-	18,800
Recognised on business combinations (Note 53)	4,592,872	244,000	457,000	84,000	5,377,872
As at December 31, 2019 (as previously reported)	4,611,672	244,000	457,000	84,000	5,396,672
Effect of IFRS 3 adjustments (Note 53)	2,141,845	-	-	-	2,141,845
As at December 31, 2019 (restated)	**6,753,517**	**244,000**	**457,000**	**84,000**	**7,538,517**
Exchange difference	-	**11,258**	-	-	**11,258**
As at December 31, 2020	**6,753,517**	**255,258**	**457,000**	**84,000**	**7,549,775**
Accumulated amortisation					
As at January 1, 2019	-	-	-	-	-
Amortisation for the year (Note 32)	-	-	54,004	10,171	64,175
As at December 31, 2019	-	-	54,004	10,171	64,175
Amortisation for the year (Note 32)	-	-	**80,202**	**15,107**	**95,309**
As at December 31, 2020	-	-	**134,206**	**25,278**	**159,484**
Carrying amount					
As at December 31, 2020	**6,753,517**	**255,258**	**322,794**	**58,722**	**7,390,291**
As at December 31, 2019	6,753,517	244,000	402,996	73,829	7,474,342

Goodwill

Goodwill arising on business combinations during 2019

On May 1, 2019, Union National Bank PJSC (or "UNB") merged with Abu Dhabi Commercial Bank PJSC in an all-stock transaction. The merged entity subsequently completed 100% acquisition of Al Hilal Bank PJSC (or "AHB"). Based on the purchase price allocation exercise performed by an external consultant following the merger and acquisition, the Bank recognised AED 785,000 thousand as intangible assets and AED 6,734,717 thousand as goodwill. Refer note 53 for details.

Impairment assessment of goodwill

For the purposes of impairment testing, goodwill acquired in a business combination is required to be allocated to the CGUs. In a goodwill impairment test, the recoverable amounts of the goodwill-carrying CGUs are compared with the respective carrying amounts. The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use.

The carrying amount of CGU is derived using a capital allocation model where the Group's core equity capital is allocated to the CGUs. The Group determines the recoverable amounts of its CGUs on the basis of value in use and employs a DCF model, which reflects the specifics of the banking business and its regulatory environment. The model calculates the present value of the estimated future earnings that are distributable to shareholders after fulfilling the respective regulatory capital requirements.

The DCF model uses earnings projections and respective capitalisation assumptions based on five-year financial plans, which are discounted to their present value. Estimating future earnings and capital requirements involves judgment and the consideration of past and current performances as well as expected developments in the respective markets, and in the overall macroeconomic and regulatory environments.

16. Intangible assets, net (continued)

Earnings projections beyond the initial five-year period are, where applicable, adjusted to derive a sustainable level. In case of a going concern, the cash flow to equity is assumed to increase by or converge towards a constant long-term growth rate. This is based on projected revenue forecasts of the CGUs as well as expected gross domestic product growth and is captured in the terminal value.

The DCF value of a CGU is sensitive to the projections of distributable earnings, to the discount rate (cost of equity) applied and, to the long-term growth rate. The discount rates applied have been determined based on the capital asset pricing model and comprise of a risk-free interest rate, a market risk premium and a factor covering the systematic market risk (beta factor).

Goodwill arising on acquisition of RBS portfolio

On October 1, 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses (the "Business") of The Royal Bank of Scotland ("RBS") in the U.A.E. for a consideration of AED 168,900 thousand. Based on the fair valuation and purchase price allocation exercise performed by an external consultant immediately following the acquisition in 2010, the Bank recognised AED 143,400 thousand as intangible assets which were fully amortised during the previous years and AED 18,800 thousand as goodwill.

No impairment loss on goodwill was recognised during the year ended December 31, 2020 (2019 - AED nil).

Other intangible assets

Trade mark and license	Indefinite life	AHB has built a strong franchise and has a reputation as a progressive Islamic bank offering a wide range of client-centric Shari'ah compliant retail banking products. The AHB brand plays a key part in generating revenues for the Bank.
Egypt license	Indefinite life	This has been recognised as an intangible asset as Central Bank of Egypt has not issued a new banking license to any entity for the past 20 years, and has therefore restricted engagement in banking activities to banks already licensed and operating in Egypt. The license plays a key part in generating revenues for the Bank. Egypt license was valued considering the market approach using comparable transactions.
Customer relationships	3 to 6 years	Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, trade finance customers were considered. These relationships are expected to generate material recurring income in the form of fees and commission.
Core deposit intangible	4.5 to 7 years	The value of core deposit intangible asset arises from the fact that the deposit base of the Group represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible.

17. Due to banks

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Vostro balances	**1,536,263**	1,739,098
Margin deposits	**1,335,846**	460,583
Time deposits	**5,349,962**	3,533,098
Total due to banks	**8,222,071**	5,732,779

The Group hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net positive fair value of these swaps at December 31, 2020 was AED 7,794 thousand (December 31, 2019 – net positive fair value of AED 14,719 thousand).

18. Deposits from customers

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Time deposits	**123,588,063**	159,797,395
Current account deposits	**94,158,197**	78,022,123
Savings deposits	**31,375,845**	21,873,206
Long term government deposits	**315,678**	351,702
Margin deposits	**1,957,674**	2,049,356
Total deposits from customers	**251,395,457**	262,093,782

For Islamic deposits included in the above table, refer note 24.

The Group hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net positive fair value of these swaps at December 31, 2020 was AED 174,740 thousand (December 31, 2019 – net positive fair value of AED 52,648 thousand).

19. Euro commercial paper

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

Currency	As at December 31 2020 AED'000	As at December 31 2019 AED'000
US dollar (USD)	**2,279,854**	889,733
UAE dirham (AED)	**199,934**	199,789
Euro (EUR)	**1,547,128**	404,553
Swiss franc (CHF)	**375,830**	247,332
Great Britain pound (GBP)	**350,847**	320,931
Total euro commercial paper	**4,753,593**	2,062,338

The Group hedges certain ECP for foreign currency exchange rate risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net positive fair value of these hedge contracts as at December 31, 2020 was AED 118,510 thousand (December 31, 2019 - net positive fair value of AED 6,060 thousand).

The effective interest rate on zero coupon ECPs issued ranges between negative 0.548% p.a. to positive 2.010% p.a. (December 31, 2019 – between negative 0.439% p.a. to positive 3.189% p.a.).

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

	AED'000
As at January 1, 2019	3,279,302
Net proceeds from issuances	3,777,878
Repayments	(5,035,632)
Other movements	40,790
As at December 31, 2019	**2,062,338**
Net proceeds from issuances	**12,346,577**
Repayments	**(9,670,741)**
Other movements	**15,419**
As at December 31, 2020	**4,753,593**

Net proceeds from issuances include effects of changes in foreign exchange rates. Other movements include discount amortised.

20. Borrowings

The details of borrowings as at December 31, 2020 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	86,254	810,625	-	717,488	1,614,367
	Chinese renminbi (CNH)	135,726	311,634	236,149	-	683,509
	Euro (EUR)	-	89,946	92,803	-	182,749
	Swiss franc (CHF)	335,032	732,097	1,509,728	-	2,576,857
	Japanese yen (JPY)	88,977	81,594	-	-	170,571
	Hong Kong dollar (HKD)	152,495	333,728	152,671	-	638,894
	US dollar (USD)	2,301,758	6,248,522	3,892,008	21,364,661	33,806,949
	Great Britain pound (GBP)	80,576	279,579	-	-	360,155
	Indonesian rupiah (IDR)	-	-	-	577,122	577,122
		3,180,818	8,887,725	5,883,359	22,659,271	40,611,173
Islamic sukuk notes	US dollar (USD)	-	1,868,272	-	-	1,868,272
Bilateral loans	US dollar (USD)	183,447	4,723,374	731,068	-	5,637,889
	Kazakhstan tenge (KZT)	-	-	-	89,091	89,091
Certificate of deposits issued	US dollar (USD)	1,163,680	-	-	-	1,163,680
	Euro (EUR)	135,460	-	-	-	135,460
Subordinated notes – fixed rate	US dollar (USD)	-	2,862,660	-	-	2,862,660
Borrowings through repurchase agreements	US dollar (USD)	1,981,860	4,521,945	-	202,333	6,706,138
	UAE dirham (AED)(*)	6,306,165	-	-	-	6,306,165
	Egyptian pound (EGP)	-	5,093	-	10,423	15,516
Total borrowings		12,951,430	22,869,069	6,614,427	22,961,118	65,396,044

(*) represents interest free borrowings from CBUAE under its Targeted Economic Support Scheme (TESS)

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net positive fair value of these swaps as at December 31, 2020 was AED 2,229,616 thousand.

20. **Borrowings** (continued)

The details of borrowings as at December 31, 2019 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	-	807,944	-	474,343	1,282,287
	Chinese renminbi (CNH)	-	352,333	106,035	-	458,368
	Euro (EUR)	214,601	81,860	81,741	-	378,202
	Swiss franc (CHF)	-	301,889	2,034,085	-	2,335,974
	Japanese yen (JPY)	-	162,125	-	-	162,125
	Hong Kong dollar (HKD)	150,386	367,352	180,651	-	698,389
	US dollar (USD)	3,616,709	3,779,972	7,472,489	17,974,140	32,843,310
	Great Britain pound (GBP)	-	345,247	-	-	345,247
	Indonesian rupiah (IDR)	-	-	-	535,180	535,180
		3,981,696	6,198,722	9,875,001	18,983,663	39,039,082
Islamic sukuk notes	US dollar (USD)	-	-	1,879,762	-	1,879,762
Bilateral loans – floating rate	US dollar (USD)	1,466,928	2,932,797	1,240,208	-	5,639,933
Syndicated loan – floating rate	US dollar (USD)	734,600	-	-	-	734,600
Certificate of deposits issued	Great Britain pound (GBP)	408,327	-	-	-	408,327
	US dollar (USD)	322,237	-	-	-	322,237
	Canadian dollar (CAD)	211,430	-	-	-	211,430
Subordinated notes – fixed rate	US dollar (USD)	-	-	2,795,627	-	2,795,627
Borrowings through repurchase agreements	US dollar (USD)	632,161	-	-	202,333	834,494
	Egyptian pound (EGP)	98	6,026	-	10,438	16,562
Total borrowings		7,757,477	9,137,545	15,790,598	19,196,434	51,882,054

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net positive fair value of these swaps as at December 31, 2019 was AED 638,810 thousand.

20. Borrowings (continued)

Interests are payable in arrears and the contractual coupon rates as at December 31, 2020 are as follows:

Instrument	CCY	Within 1 year	1-3 years	3-5 years	Over 5 years
Global medium term notes	AUD	Fixed rate of 3.73% p.a.	Fixed rate between 3.75% p.a. to 3.92% p.a. and quarterly coupons with 138 basis points over bank bill swap rate (BBSW)	-	Fixed rate between 2.69% p.a. to 4.50% p.a.
	CNH	Fixed rate between 4.85% p.a. to 5.02% p.a.	Fixed rate 3.00% p.a. to 4.82% p.a.	Fixed rate between 3.33% p.a. to 4.60% p.a.	-
	EUR	-	Fixed rate of 0.038% p.a.	Fixed rate of 0.75% p.a.	-
	CHF	Zero coupon with an internal rate of return 0.05% p.a.	Fixed rate of 0.385% p.a.	Fixed rate between 0.05% p.a. and 0.735% p.a.	-
	JPY	Fixed rate of 0.445% p.a.	Fixed rate of 0.445% p.a.	-	-
	HKD	Fixed rate between 2.69% p.a. to 2.86% p.a.	Fixed rate between 2.84% p.a. to 3.20% p.a.	Fixed rate between 1.34% p.a. to 2.87% p.a.	-
	USD	Fixed rate of 2.75% p.a. and quarterly coupons between 80 to 85 basis points over Libor	Fixed rate of 4.0% p.a. and quarterly coupons between 88 to 140 basis points over Libor	Quarterly coupons between 103 to 155 basis points over Libor	Fixed rate between 4.65% p.a. to 5.10% p.a.; zero coupon with an internal rate of return between 3.271% p.a. to 5.785% p.a. and quarterly coupons with 140 basis points over Libor (*)
	GBP	Fixed rate of 1.40% p.a.	Fixed rate between 1.95% p.a. to 2.03% p.a.	-	-
	IDR	-	-	-	Fixed rate between 7.50% p.a. to 8.16% p.a.
Islamic Sukuk notes	USD	-	Fixed rate of 4.375% p.a.	-	-
Bilateral loans	USD	Monthly coupons of 63 basis points over Libor	Monthly coupons between 50 to 95 basis points over Libor	Monthly coupons of 100 basis points over Libor	-
	KZT	-	-	-	Fixed rate of 9.5 % p.a.
Certificate of deposits issued	USD	Zero coupon with an internal rate of return between 0.363% p.a. to 0.389% p.a.	-	-	-
	EUR	Zero coupon with an internal rate of return of negative 0.456% p.a.	-	-	-
Subordinated notes – fixed rate	USD	-	Fixed rate of 4.50% p.a.	-	-
Borrowings through repurchase agreements	USD	Fixed rate between 0.45% p.a. to 0.60% p.a. and quarterly coupons with 45 basis points over Libor	Fixed rate of 0.60% p.a. and quarterly coupons between 45 to 50 basis points over Libor.	-	Semi-annual coupons between negative 20 to negative 18 basis points over Libor
	EGP	-	Fixed rate of 3.00% p.a.	-	Fixed rate between 0.50% p.a. to 3.50% p.a.

(*) includes AED 20,446,564 thousand accreting notes issued with original tenors ranging from 30 years to 40 years with internal rate of return ranging between 3.271% p.a. to 5.785% p.a. and are callable at the end of every 5th, 6th, 7th or 10th year from issue date

20. Borrowings (continued)

The subordinated fixed rate note qualifies as Tier 2 capital and is eligible for grandfathering at the rate of 10% per annum in accordance with capital guidance issued by CBUAE. Further, the subordinated fixed rate note has entered its five years to maturity and is being amortised at the rate of 20% per annum till its maturity in 2023 (Note 50).

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

	AED'000
As at January 1, 2019	43,027,749
Net proceeds from issuances	18,012,653
Addition on business combinations (Note 53)	8,152,427
Repayments	(19,799,050)
Other movements	2,488,275
As at December 31, 2019	**51,882,054**
Net proceeds from issuances	**33,895,814**
Repayments	**(22,859,293)**
Other movements	**2,477,469**
As at December 31, 2020	**65,396,044**

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

21. Other liabilities

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Interest payable	**916,464**	1,758,479
Recognised liability for defined benefit obligation	**630,203**	633,262
Accounts payable and other creditors	**294,991**	353,293
Deferred income	**891,883**	813,968
Acceptances (Note 14)	**6,809,348**	12,726,229
Impairment allowance on letters of credit, guarantees and other commitments (Note 43.3)	**544,914**	1,432,363
Others (*)	**3,840,172**	2,585,200
Total other liabilities	**13,927,975**	20,302,794

(*) includes AED 192,363 thousand pertaining to finance lease liability as at December 31, 2020 (December 31, 2019 – AED 226,828 thousand)

Defined benefit obligation

The Group provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2020 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost, were measured using the Projected Unit Credit Method.

Key assumptions used in the actuarial valuation are as follows:

Discount rate: 1.68% p.a. (2019: 2.80% p.a.)
Salary increment rate: 3.00% p.a. (2019: 3.00% p.a.)

Demographic assumptions for mortality and retirement were used in valuing the liabilities and benefits under the plan.

21. Other liabilities (continued)

The liability would be higher by AED 22,673 thousand had the discount rate used in the assumption been lower by 0.50% and the liability would be lower by AED 21,337 thousand had the discount rate used in the assumption been higher by 0.50%. Similarly, the liability would be higher by AED 17,995 thousand had the salary increment rate used in the assumption been higher by 0.50% and the liability would be lower by AED 17,128 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

	2020 AED'000	2019 AED'000
Opening balance	**633,262**	487,995
Addition on business combinations	**-**	206,825
Net charge during the year(*)	**59,660**	74,158
Actuarial losses/(gains) on defined benefit obligation	**31,213**	(16,773)
Benefits paid	**(93,932)**	(118,943)
Closing balance	**630,203**	633,262

(*) recognised under "staff expense" in the consolidated income statement

Defined contribution

Under defined contribution plans, the Group pays contributions to Abu Dhabi Retirement Pensions and Benefits Fund for UAE National employees and to respective pension funds for other employees including GCC Nationals. The charge for the year in respect of these contributions is AED 64,627 thousand (2019 – AED 55,930 thousand). As at December 31, 2020, pension payable of AED 7,241 thousand has been classified under 'Other liabilities – others' (December 31, 2019 – AED 7,139 thousand).

Tax matters

The Group's current tax provision include management's assessment of portion of amount of tax payable on claims from relevant tax authorities. Uncertain tax items for which a provision of AED 75,000 thousand as at December 31, 2020 (December 31, 2019 – AED 15,000 thousand) is included under 'Other liabilities – others' relates principally to the interpretation of tax legislation applicable to arrangements entered into by the Group. Due to the uncertainty associated with such tax items, it is possible that, on conclusion of open tax matters at a future date, the final outcome may differ.

Zakat

In accordance with Cabinet Resolution No. (15/9) of 2020 and CB UAE Notice No. CBUAE/BSD/N/2020/3519, all banks and finance companies operating in the UAE that conduct all or part of their business in accordance with the principles of Islamic Shari'ah are required to pay Zakat and transfer 20% of Zakat monies to Zakat Fund in the UAE. Accordingly, the Bank and its subsidiary, Al Hilal Bank PJSC (AHB), have appropriated AED 90,156 thousand and AED 24,059 thousand respectively from equity to Zakat payable account. The Zakat payable amount is shown under 'Other liabilities – others'. The total Zakat payable amount pertains to Shari'ah compliant assets and liabilities of UAE operations of the Group. In order to comply with the aforementioned Cabinet Resolution, the Group shall transfer 20% of its Zakat monies to Zakat Fund in the UAE.

The Zakat payable by the Bank on behalf of its shareholders is computed based on "Net asset method" as per Financial Accounting Standard (FAS) No. (9) Zakah issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The mechanism of calculation of Zakat has been reviewed and approved by the internal Shari'ah Supervisory Committees of the Bank and AHB.

22. Share capital

	Authorised	Issued and fully paid	
		As at December 31 2020	As at December 31 2019
	AED'000	AED'000	AED'000
Ordinary shares of AED 1 each	**10,000,000**	**6,957,379**	6,957,379

As stated in note 1, the Bank issued 1,759,148,145 shares pursuant to the merger and acquisition in the year 2019 as follows:

	UNB AED'000	AHB AED'000	Total AED'000
Ordinary share capital issued	1,641,501	117,647	1,759,148
Share premium	14,576,530	882,353	15,458,883
Purchase consideration (Note 53)	16,218,031	1,000,000	17,218,031

As at December 31, 2020, Abu Dhabi Investment Council held 60.20% (December 31, 2019 – 60.20%) of the Bank's issued and fully paid up share capital.

Dividends

For the year ended December 31, 2020, the Board of Directors has proposed to pay a cash dividend of AED 1,878,492 thousand, being AED 0.27 dividend per share and representing 27% of the paid up capital (December 31, 2019 - AED 2,643,804 thousand, being AED 0.38 dividend per share and representing 38% of the paid up capital). This is subject to the approval of the shareholders in the Annual General Meeting.

23. Other reserves

Reserves movement for the year ended December 31, 2020:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated at FVTOCI AED'000	Attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2020	(30,105)	3,276,767	3,276,767	2,000,000	150,000	(54,521)	22,727	616,284	9,257,919	2,422	9,260,341
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(2,706)	-	-	(2,706)	31	(2,675)
Net fair value changes on cash flow hedges	-	-	-	-	-	-	(52,934)	-	(52,934)	-	(52,934)
Net fair value changes on cash flow hedges reclassified to consolidated income statement	-	-	-	-	-	-	(3,257)	-	(3,257)	-	(3,257)
Net fair value changes of debt instruments designated at FVTOCI	-	-	-	-	-	-	-	472,209	472,209	59	472,268
Amounts reclassified to consolidated income statement for debt instruments designated at FVTOCI (*)	-	-	-	-	-	-	-	(191,561)	(191,561)	-	(191,561)
Net fair value changes of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	(3,631)	(3,631)	-	(3,631)
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	(19,953)	(19,953)	-	(19,953)
Total other comprehensive (loss)/income for the year	-	-	-	-	-	(2,706)	(56,191)	257,064	198,167	90	198,257
Acquisition of non-controlling interests	-	-	-	-	-	1,071	-	1,177	2,248	(2,248)	-
Transfer from retained earnings (Note 50)	-	201,923	201,923	-	-	-			403,846		403,846
Fair value adjustments	36	-	-	-	-	-	-	-	36	-	36
Shares – vested portion (Note 25)	3,200	-	-	-	-	-	-	-	3,200	-	3,200
As at December 31, 2020	(26,869)	3,478,690	3,478,690	2,000,000	150,000	(56,156)	(33,464)	874,525	9,865,416	264	9,865,680

(*) includes impairment charge for the year (Note 33)

For more information on reserves, refer note 50.

23. Other reserves (continued)

Reserves movement for the year ended December 31, 2019:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated at FVTOCI AED'000	Attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2019	(41,758)	2,797,799	2,797,799	2,000,000	150,000	(86,249)	(148,778)	(609,542)	6,859,271	-	6,859,271
Exchange difference arising on translation of foreign operations	-	-	-	-	-	31,728	-	-	31,728	1,161	32,889
Net fair value changes on cash flow hedges	-	-	-	-	-	-	152,115	-	152,115	-	152,115
Net fair value changes on cash flow hedges reclassified to consolidated income statement	-	-	-	-	-	-	19,390	-	19,390	-	19,390
Net fair value changes of debt instruments designated at FVTOCI	-	-	-	-	-	-	-	1,198,640	1,198,640	1,261	1,199,901
Amounts reclassified to consolidated income statement for debt instruments designated at FVTOCI (*)	-	-	-	-	-	-	-	77,802	77,802	-	77,802
Net fair value changes of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	(26,763)	(26,763)	-	(26,763)
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	(23,853)	(23,853)	-	(23,853)
Total other comprehensive income for the year	-	-	-	-	-	31,728	171,505	1,225,826	1,429,059	2,422	1,431,481
Transfer from retained earnings (Note 50)	-	478,968	478,968	-	-	-	-	-	957,936	-	957,936
Fair value adjustments	(18)	-	-	-	-	-	-	-	(18)	-	(18)
Shares – vested portion (Note 25)	11,671	-	-	-	-	-	-	-	11,671	-	11,671
As at December 31, 2019	(30,105)	3,276,767	3,276,767	2,000,000	150,000	(54,521)	22,727	616,284	9,257,919	2,422	9,260,341

(*) includes impairment charge for the year (Note 33)

24. Islamic financing

Islamic financing assets

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Murabaha	**22,070,964**	20,491,619
Ijara financing	**18,427,085**	19,420,022
Salam	**3,624,170**	6,558,810
Others	**434,459**	596,398
Gross Islamic financing assets	**44,556,678**	47,066,849
Less: Allowance for impairment	**(1,804,555)**	(845,643)
Net Islamic financing assets	**42,752,123**	46,221,206

Gross Ijara and related present value of the minimum Ijara payments

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Not later than one year	**4,798,006**	4,611,268
Later than one year but not later than five years	**9,522,318**	11,216,570
Later than five years	**7,855,554**	9,514,024
Gross Ijara	**22,175,878**	25,341,862
Less: Deferred income	**(3,748,793)**	(5,921,840)
Net Ijara	**18,427,085**	19,420,022
Net present value		
Not later than one year	**4,048,168**	3,598,755
Later than one year but not later than five years	**7,945,565**	8,633,960
Later than five years	**6,433,352**	7,187,307
Total net present value	**18,427,085**	19,420,022

Income from Islamic financing and investing products

	2020 AED'000	2019 AED'000
Murabaha	**1,135,352**	1,025,079
Ijara financing	**806,195**	938,843
Salam	**318,857**	409,329
Sukuk investments	**123,329**	74,343
Others	**30,818**	48,372
Total income from Islamic financing and investing products	**2,414,551**	2,495,966

Islamic deposits

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Current account deposits	**12,285,859**	11,507,685
Margin deposits	**222,789**	252,100
Mudaraba savings deposits	**15,052,588**	11,401,045
Mudaraba term deposits	**1,792,638**	1,324,282
Wakala deposits	**9,790,404**	22,491,377
Total Islamic deposits	**39,144,278**	46,976,489

24. Islamic financing (continued)

Distribution on Islamic deposits and profit paid to sukuk holders

	2020 AED'000	2019 AED'000
Mudaraba savings and term deposits	**99,559**	88,831
Wakala deposits	**331,089**	599,640
Islamic sukuk notes and reverse murabaha	**106,223**	79,138
Total distribution on Islamic deposits and profit paid to sukuk holders	**536,871**	767,609

25. Employees' incentive plan shares, net

The Group operates Deferred Compensation Plan (the "Plan") to recognise and retain good performing employees. Under the Plan, the employees are granted shares of the Bank when they meet the vesting conditions at a price prevailing at the grant date. These shares are acquired and held by a subsidiary of the Bank until vesting conditions are met. The Board Nomination Compensation HR and Governance Committee determines and approves the shares to be granted to employees based on the Group's key performance indicators.

During the year ended December 31, 2020, the Group had the following incentive plan in force as described below:

Grant date	January 1, 2017
Number of shares granted	2,675,000
Fair value of the granted shares at the grant date in AED thousand	18,458
Vesting date	December 31, 2020

Vesting conditions – Four years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement, termination or achieving the budgeted performance).

The movement of plan shares is as follows:

	2020	2019
Opening balance	**2,245,000**	5,184,158
Exercised during the year	**(2,160,000)**	(2,685,579)
Forfeited during the year	**(85,000)**	(253,579)
Closing balance	**-**	2,245,000
Amount of "Plan" cost recognised under "staff expenses" in the consolidated income statement (AED '000)	**3,200**	11,671

Total number of un-allotted shares under the Plan as at December 31, 2020 were 4,190,237 shares (December 31, 2019 – 4,105,237 shares). These un-allotted shares include forfeited shares and shares purchased for future awards.

26. Capital notes

In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier I regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bore interest at the rate of 6% per annum payable semi-annually until February 2014, and bear a floating interest rate of 6 month Eibor plus 2.3% per annum thereafter. However, the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service the coupon is not considered an event of default. In addition, there are certain circumstances ("non-payment event") under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

26. Capital notes (continued)

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

Pursuant to merger, the Bank assumed erstwhile UNB's Tier I regulatory capital notes with a principal amount of AED 2,000,000 thousand (Note 53). The terms and conditions applicable to these notes are similar to the Notes issued by ADCB.

Further, AHB's Tier I regulatory capital note amounting to AED 1,836,500 thousand assumed on the date of acquisition (Note 53), were settled in June 2019.

27. Interest income

	2020 AED'000	2019 AED'000
Loans and advances to banks	**474,750**	1,008,319
Loans and advances to customers	**9,144,144**	10,606,624
Investment securities	**2,031,964**	2,262,743
Total interest income	**11,650,858**	13,877,686

28. Interest expense

	2020 AED'000	2019 AED'000
Deposits from banks	**57,725**	110,738
Deposits from customers	**2,594,760**	4,497,323
Euro commercial paper	**41,851**	90,563
Borrowings (*)	**1,051,266**	1,666,283
Total interest expense	**3,745,602**	6,364,907

(*) includes AED 15,061 thousand (2019: AED 11,937 thousand) for interest expense on lease liabilities

29. Net fees and commission income

	2020 AED'000	2019 AED'000
Fees and commission income		
Card related fees	**811,122**	1,001,618
Loan processing fees	**541,710**	621,888
Accounts related fees	**162,882**	167,416
Trade finance commission	**477,217**	438,536
Insurance commission	**54,519**	75,533
Asset management and investment services	**56,743**	86,840
Brokerage fees	**7,619**	6,519
Other fees	**340,726**	315,967
Total fees and commission income	**2,452,538**	2,714,317
Fees and commission expense	**(901,649)**	(898,155)
Net fees and commission income	**1,550,889**	1,816,162

30. Net trading income

	2020 AED'000	2019 AED'000
Net gains from dealing in derivatives	**95,950**	62,765
Net gains from dealing in foreign currencies	**463,623**	397,329
Net (losses)/gains from trading securities	**(4,285)**	815
Net trading income	**555,288**	460,909

31. Other operating income

	2020 AED'000	2019 AED'000
Property management income	**142,543**	132,053
Rental income	**82,259**	82,563
Net gains/(losses) from disposal of investment securities	**282,701**	(820)
Net gains arising from retirement of hedges	**55,454**	3,207
Dividend income	**21,683**	13,191
Others	**42,466**	40,475
Total other operating income	**627,106**	270,669

32. Operating expenses

	2020 AED'000	2019 AED'000
Staff expenses	**2,552,018**	2,583,719
General administrative expenses	**1,475,103**	1,503,671
Depreciation (Note 15)	**403,911**	366,114
Amortisation of intangible assets (Note 16)	**95,309**	64,175
Total operating expenses	**4,526,341**	4,517,679

33. Impairment charge

	2020 AED'000	2019 AED'000
Financial instruments carried at amortised cost – net charge(*)	**4,962,558**	2,629,534
Debt instruments designated at FVTOCI – net charge	**93,305**	85,504
Commitment and contingent liabilities – net release	**(308,648)**	(18,897)
Less: Recoveries/modifications during the year	**(772,976)**	(344,087)
Total expected credit losses (Note 43.3)	**3,974,239**	2,352,054
Impairment charge on investment in associates (Note 12)	**18,673**	-
Total impairment charge	**3,992,912**	2,352,054

(*) includes net charge of AED 11,846 thousand (2019: AED nil) on investment securities at amortised cost

34. Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan.

	2020 AED'000	2019 AED'000
Profit for the year attributable to the equity holders of the Bank	**3,806,078**	4,789,686
Less: Coupons paid on capital notes (Note 26)	**(277,294)**	(265,056)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	**3,528,784**	4,524,630
	Number of shares in thousand	
Weighted average number of shares in issue throughout the year	**6,957,379**	6,379,029
Less: Weighted average number of shares resulting from employees' incentive plan shares	**(6,344)**	(9,024)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	**6,951,035**	6,370,005
Add: Weighted average number of shares resulting from employees' incentive plan shares	**6,344**	9,024
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	**6,957,379**	6,379,029
Basic earnings per share (AED) (a)/(b)	**0.51**	0.71
Diluted earnings per share (AED) (a)/(c)	**0.51**	0.71

35. Discontinued operations

The Group has classified the overseas branches and operations in India, Jersey, Qatar, Kuwait, China and Singapore, and subsidiaries - Al Hilal Auto LLC and Abu Dhabi Commercial Bank (UK Representative Office) Limited, as discontinued operations. These have been presented separately in the statement of financial position.

During the year, the Group also classified its investments in associates – Orient UNB Takaful PJSC and Arab Orient Takaful Insurance Company, as held for sale.

Al Hilal Takaful PSC (subsidiary) which was classified as disposal group held for sale as at December 31, 2019 was disposed of during the year.

Loss from discontinued operations comprises of the following:

	2020 AED'000	2019 AED'000
Net interest and income from Islamic financing and investing products	**4,795**	15,722
Non-interest income	**9,931**	(24,253)
Operating expenses	**(51,796)**	(3,362)
Impairment charge	**-**	(24,825)
Overseas income tax charge	**(3,695)**	(41)
Total loss from discontinued operations	**(40,765)**	(36,759)

Loss from discontinued operations is fully attributable to the equity holders of the Bank.

35. Discontinued operations (continued)

The major class of assets and liabilities forming part of discontinued operations and assets held for sale are as follows:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Assets		
Cash and balances with central banks, net	**32,932**	217,916
Deposits and balances due from banks, net	**108,723**	1,715
Loans and advances to customers, net	**-**	48,942
Investment in associates classified as held for sale (Note 12)	**101,347**	-
Other assets, net	**16,202**	263,665
Property and equipment, net	**1,863**	3,592
Total assets classified as held for sale	**261,067**	535,830
Liabilities		
Deposits from customers	**-**	120,283
Other liabilities	**4,725**	293,112
Total liabilities related to assets held for sale	**4,725**	413,395

The net cash flows attributable to discontinued operations are as follows:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Net cash used in operating activities	**(42,047)**	(66,341)
Net cash from investing activities	**-**	260,383
Net cash used in financing activities	**-**	(212,759)
Net cash used in discontinued operations	**(42,047)**	**(18,717)**

36. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Cash and balances with central banks (Note 7)	**29,602,072**	24,905,213
Deposits and balances due from banks (excluding loans and advances to banks) (Note 8)	**10,745,758**	11,389,514
Due to banks (Note 17)	**(8,222,071)**	(5,732,779)
	32,125,759	30,561,948
Less: Cash and balances with central banks and deposits and balances due from banks – with original maturity of more than three months	**(5,025,020)**	(10,442,791)
Add: Due to banks – with original maturity of more than three months	**5,429,457**	2,553,434
Add: Cash and cash equivalents included in assets held for sale	**141,655**	183,682
Total cash and cash equivalents	**32,671,851**	22,856,273

37. Related party transactions

The Group enters into transactions with the parent and its related entities, associates, funds under management, directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at commercial interest and commission rates.

37. Related party transactions (continued)

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors, chief executive officer and his direct reports. Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors (the "Board") for its review and approval. Where a Director is interested, that Director neither participates in the discussions nor votes on such matters. The Bank's policy is, so far as possible, to engage in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations. The Board Secretariat maintains a conflicts and related parties register which is regularly reviewed by the Board Corporate Governance Committee. In addition, the Board maintains awareness of other commitments of its Directors and senior management. The Bank has implemented a Directors' Conflict of Interest policy and, for senior management, a Code of Conduct. As a result of written declarations submitted by each of the Board members, the Board satisfies itself that the other commitments of the Directors do not conflict with their duties or that, where conflicts arise, the Board is sufficiently aware and policies are in place to minimise the risks.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Parent and ultimate controlling party

Abu Dhabi Investment Council holds 60.20% (December 31, 2019 - 60.20%) of the Bank's issued and fully paid up share capital (Note 22). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006 and so the ultimate controlling party is the Government of Abu Dhabi.

Related party balances and transactions

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

	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management personnel AED'000	Associates and funds under management AED'000	Total AED'000
Balances as at December 31, 2020					
Deposits and balances due from banks	22,634	-	-	-	22,634
Derivative financial instruments - assets	1,578,219	-	-	-	1,578,219
Investment securities	25,955,155	-	-	155,297	26,110,452
Loans and advances to customers	43,021,433	583,192	17,073	164,944	43,786,642
Other assets	275,020	2,659	22	1,878	279,579
Derivative financial instruments - liabilities	1,107,790	-	-	-	1,107,790
Deposits from customers	98,727,448	75,056	44,875	34,265	98,881,644
Borrowings	5,414	-	-	-	5,414
Other liabilities	256,304	69	16,314	-	272,687
Capital notes	6,000,000	-	-	-	6,000,000
Commitments and contingent liabilities	11,372,337	8,741	2,033	919	11,384,030
Transactions for the year ended December 31, 2020					
Interest income, Islamic financing income, fees and other income	1,404,706	22,532	628	23,165	1,451,031
Interest expense and Islamic profit distribution	1,051,014	786	222	-	1,052,022
Derivative income	251,018	-	-	-	251,018
Impairment charge	1,026,829	-	-	-	1,026,829
Share in profit of associates	-	-	-	18,005	18,005
Coupons paid on capital notes	277,294	-	-	-	277,294

37. Related party transactions (continued)

Related party balances and transactions (continued)

	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management personnel AED'000	Associates and funds under management AED'000	Total AED'000
Balances as at December 31, 2019					
Deposits and balances due from banks	306,793	-	-	-	306,793
Derivative financial instruments - assets	1,176,267	-	-	-	1,176,267
Investment securities	18,620,617	-	-	159,190	18,779,807
Loans and advances to customers	32,432,869	783,339	18,568	193,128	33,427,904
Other assets	319,617	6,265	26	2,969	328,877
Derivative financial instruments - liabilities	589,971	-	-	-	589,971
Deposits from customers	89,408,432	1,439,496	31,026	43,442	90,922,396
Borrowings	57,332	-	-	-	57,332
Other liabilities	553,604	4,693	15,728	286	574,311
Capital notes	6,000,000	-	-	-	6,000,000
Commitments and contingent liabilities	15,662,408	191,355	2,329	29,100	15,885,192
Transactions for the year ended December 31, 2019					
Interest income, Islamic financing income, fees and other income	1,110,081	45,999	734	26,377	1,183,191
Interest expense and Islamic profit distribution	1,690,854	6,462	341	2,968	1,700,625
Derivative income	219,114	-	-	-	219,114
Share in profit of associates	-	-	-	17,765	17,765
Coupons paid on capital notes	265,056	-	-	-	265,056

As at December 31, 2020, Funds under management held 2,204,448 shares (December 31, 2019: 3,235,817 shares) of the Bank. During the year, the Bank paid dividend of AED 1,232 thousand (2019: AED 898 thousand) to these Funds.

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

	2020 AED'000	2019 AED'000
Short term benefits	**27,680**	29,176
Post-employment benefits	**2,613**	2,578
Variable pay benefits	**24,788**	29,788
Total remuneration	**55,081**	61,542
Board of Directors fees and expenses	**28,028**	13,143

In addition to the above, the key management personnel were granted long term deferred compensation of AED 21,863 thousand (2019 - AED 26,763 thousand).

Business combinations under common control

During the previous year, the Bank was involved in business combinations under common control. Refer note 53 for details.

38. Commitments and contingent liabilities

The Group has the following commitments and contingent liabilities:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Letters of credit	**4,926,407**	7,239,078
Guarantees	**53,481,072**	60,261,667
Commitments to extend credit – revocable (*)	**15,337,714**	20,932,010
Commitments to extend credit – irrevocable	**19,281,493**	20,214,940
Total commitments on behalf of customers	**93,026,686**	108,647,695
Commitments for future capital expenditure	**506,647**	486,941
Commitments to invest in investment securities	**3,012**	1,757
Total commitments and contingent liabilities	**93,536,345**	109,136,393

(*) includes AED 7,259,002 thousand (December 31, 2019: AED 7,907,139 thousand) for undrawn credit card limits

Credit-related commitments

Credit-related commitments include commitments to extend credit, letters of credit and guarantees which are designed to meet the requirements of the Bank's customers. Irrevocable commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Revocable commitments to extend credit represent commitments to make loan and advances and revolving credits which can be cancelled by the Bank unconditionally without any contractual obligations. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Commitments and contingent liabilities which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

39. Operating segments

The Group has four reportable segments as described below. These segments offer different products and services and are managed separately based on the Group's management and internal reporting structure. The Group's Management Executive Committee (the Chief Operating Decision Maker "CODM"), is responsible for allocation of resources to these segments, whereas, the Group's Performance Management Committee, based on delegation from CODM reviews the performance of these segments on a regular basis.

The following summary describes the operations in each of the Group's reportable segments:

Consumer banking - comprises of retail, wealth management, Islamic financing and investment in associates. It includes loans, deposits and other transactions and balances with retail customers and corporate and private accounts of high net worth individuals and fund management activities.

39. Operating segments (continued)

Wholesale banking - comprises of business banking, cash management, trade finance, corporate finance, small and medium enterprise financing, investment banking, Islamic financing, infrastructure and asset finance, government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers.

Investments and treasury - comprises of central treasury operations, management of the Group's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities and use of derivatives for risk management. It also undertakes trading and corporate finance activities and investing in liquid assets such as short-term placements, corporate and government debt securities.

Property management - comprises of real estate management and engineering service operations of subsidiaries and rental income earned from properties of the Group.

Information regarding the results of each reportable segment is shown below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Performance Management Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The following is an analysis of the Group's revenue and results by operating segments for the year ended December 31, 2020:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	3,491,214	2,298,403	2,088,538	27,101	7,905,256
Net income from Islamic financing and investing products	1,056,389	376,320	438,220	6,751	1,877,680
Total net interest income and income from Islamic financing and investing products	4,547,603	2,674,723	2,526,758	33,852	9,782,936
Non-interest income	743,307	971,685	772,710	200,609	2,688,311
Operating income	5,290,910	3,646,408	3,299,468	234,461	12,471,247
Operating expenses	(2,863,964)	(1,199,756)	(284,137)	(178,484)	(4,526,341)
Operating profit before impairment charge	2,426,946	2,446,652	3,015,331	55,977	7,944,906
Impairment charge	(1,383,946)	(2,529,234)	(79,732)	-	(3,992,912)
Operating profit/(loss) after impairment charge	1,043,000	(82,582)	2,935,599	55,977	3,951,994
Share in profit of associates	18,005	-	-	-	18,005
Profit/(loss) before taxation	1,061,005	(82,582)	2,935,599	55,977	3,969,999
Overseas income tax charge	(5,937)	(19,114)	(95,306)	-	(120,357)
Loss from discontinued operations	(25,413)	(15,352)	-	-	(40,765)
Profit/(loss) for the year	1,029,655	(117,048)	2,840,293	55,977	3,808,877
As at December 31, 2020					
Total assets	109,176,079	160,736,291	139,518,474	1,725,457	411,156,301
Total liabilities	94,638,057	102,498,044	156,735,846	682,966	354,554,913

39. Operating segments (continued)

The following is an analysis of the Group's revenue and results by operating segments for the year ended December 31, 2019:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	3,157,262	2,280,357	2,032,909	42,251	7,512,779
Net income from Islamic financing and investing products	881,559	447,442	391,140	8,216	1,728,357
Total net interest income and income from Islamic financing and investing products	4,038,821	2,727,799	2,424,049	50,467	9,241,136
Non-interest income	997,209	954,099	346,513	183,183	2,481,004
Operating income	5,036,030	3,681,898	2,770,562	233,650	11,722,140
Operating expenses	(2,744,556)	(1,289,816)	(321,620)	(161,687)	(4,517,679)
Operating profit before impairment charge	2,291,474	2,392,082	2,448,942	71,963	7,204,461
Impairment charge	(1,230,556)	(1,041,856)	(79,642)	-	(2,352,054)
Operating profit after impairment charge	1,060,918	1,350,226	2,369,300	71,963	4,852,407
Share in profit of associates	17,765	-	-	-	17,765
Profit before taxation	1,078,683	1,350,226	2,369,300	71,963	4,870,172
Overseas income tax charge	(10,323)	(12,092)	(18,511)	-	(40,926)
Loss from discontinued operations	(9,243)	(27,516)	-	-	(36,759)
Profit for the year	1,059,117	1,310,618	2,350,789	71,963	4,792,487
As at December 31, 2019 (restated)(Note 53)					
Total assets	110,473,825	172,749,335	120,176,843	1,694,822	405,094,825
Total liabilities	85,941,571	128,805,940	134,561,783	127,739	349,437,033

Other disclosures

The following is the analysis of the total operating income of each segment between income from external parties and inter-segment.

	External		Inter-segment	
	2020 AED'000	2019 AED'000	**2020 AED'000**	2019 AED'000
Consumer banking	**6,230,253**	6,543,825	**(939,343)**	(1,507,795)
Wholesale banking	**4,997,466**	5,295,885	**(1,351,058)**	(1,613,987)
Investments and treasury	**1,045,667**	(265,408)	**2,253,801**	3,035,970
Property management	**197,861**	147,838	**36,600**	85,812
Total operating income	**12,471,247**	11,722,140	**-**	-

39. Operating segments (continued)

Geographical information

The Group operates in two principal geographic areas i.e. domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the UAE branches and subsidiaries. International area represents the operations of the Group that originates from its branches and subsidiaries outside UAE. The information regarding the Group's revenue from continuing operations and non-current assets by geographical location are detailed as follows:

	Domestic		International	
	2020 AED'000	2019 AED'000	**2020 AED'000**	2019 AED'000
Income				
Net interest income and income from Islamic financing and investing products	**9,466,546**	9,091,578	**316,390**	149,558
Non-interest income	**2,619,234**	2,420,230	**69,077**	60,774
Non-current assets				
Investment in associates	**255,868**	387,627	**-**	20,141
Investment properties	**1,631,673**	1,684,448	**12,283**	9,259
Property and equipment, net	**1,886,698**	2,023,029	**171,877**	174,542
Intangible assets (restated) (Note 53)	**7,258,033**	7,353,342	**132,258**	121,000

40. Financial instruments

Categories of financial instruments

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9 as at December 31, 2020.

	Mandatorily measured at FVTPL AED'000	Hedging derivatives AED'000	Debt instruments classified at FVTOCI AED'000	Equity instruments designated at FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	-	-	-	-	29,601,607	29,601,607
Deposits and balances due from banks, net	-	-	-	-	21,535,442	21,535,442
Derivative financial instruments	8,433,999	2,712,397	-	-	-	11,146,396
Investment securities	-	-	65,577,008	975,148	21,653,828	88,205,984
Loans and advances to customers, net	-	-	-	-	238,975,702	238,975,702
Other assets, net	-	-	-	-	9,990,646	9,990,646
Total financial assets	**8,433,999**	**2,712,397**	**65,577,008**	**975,148**	**321,757,225**	**399,455,777**
Liabilities						
Due to banks	-	-	-	-	8,222,071	8,222,071
Derivative financial instruments	7,956,271	2,898,777	-	-	-	10,855,048
Deposits from customers	-	-	-	-	251,395,457	251,395,457
Euro commercial paper	-	-	-	-	4,753,593	4,753,593
Borrowings	-	-	-	-	65,396,044	65,396,044
Other liabilities	-	-	-	-	12,398,648	12,398,648
Total financial liabilities	**7,956,271**	**2,898,777**	**-**	**-**	**342,165,813**	**353,020,861**

40. Financial instruments (continued)

Categories of financial instruments (continued)

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9 as at December 31, 2019.

	Mandatorily measured at FVTPL AED'000	Hedging derivatives AED'000	Debt instruments classified at FVTOCI AED'000	Equity instruments designated at FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	-	-	-	-	24,904,966	24,904,966
Deposits and balances due from banks, net	-	-	-	-	23,064,974	23,064,974
Derivative financial instruments	5,566,426	1,223,291	-	-	-	6,789,717
Investment securities (*)	-	-	72,616,875	825,787	-	73,442,662
Loans and advances to customers, net (*)	-	-	-	-	247,833,080	247,833,080
Other assets, net	-	-	-	-	16,611,092	16,611,092
Total financial assets	5,566,426	1,223,291	72,616,875	825,787	312,414,112	392,646,491
Liabilities						
Due to banks	-	-	-	-	5,732,779	5,732,779
Derivative financial instruments	5,456,475	1,493,416	-	-	-	6,949,891
Deposits from customers	-	-	-	-	262,093,782	262,093,782
Euro commercial paper	-	-	-	-	2,062,338	2,062,338
Borrowings	-	-	-	-	51,882,054	51,882,054
Other liabilities	-	-	-	-	18,848,425	18,848,425
Total financial liabilities	5,456,475	1,493,416	-	-	340,619,378	347,569,269

(*) restated - refer note 53

41. Fair value hierarchy

Fair value measurements recognised in the consolidated financial statements

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

The category includes derivative financial instruments such as OTC derivatives, commodity derivatives, foreign exchange spot and forward contracts, certain investment securities and borrowings.

Valuation of the derivative financial instruments is made through discounted cash flow method using the applicable yield curve for the duration of the instruments for non-optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for derivatives with options.

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments and investment properties are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Financial instruments under this category mainly includes private equity instruments and funds. The carrying values of these investments are adjusted as follows:

a) Private equity instruments – using the latest available net book value; and
b) Funds – based on the net asset value provided by the fund manager.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Refer note 13 in respect of valuation methodology used for investment properties.

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements do not materially differ from their fair values.

41. Fair value hierarchy (continued)

	Note	Level 1 Quoted market 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, 2020						
Assets at fair value						
Derivative financial instruments	**9**	**-**	**11,146,396**	**-**	**11,146,396**	**11,146,396**
Investment securities	**10**					
- At fair value through other comprehensive income		**63,930,488**	**2,415,687**	**205,981**	**66,552,156**	**66,552,156**
- At amortised cost		**22,027,493**	**-**	**-**	**22,027,493**	**21,653,828**
Investment properties	**13**	**-**	**-**	**1,643,956**	**1,643,956**	**1,643,956**
Total		**85,957,981**	**13,562,083**	**1,849,937**	**101,370,001**	**100,996,336**
Liabilities at fair value						
Derivative financial instruments	**9**	**-**	**10,855,048**	**-**	**10,855,048**	**10,855,048**
Liabilities at amortised cost						
Euro commercial paper	**19**	**-**	**4,757,186**	**-**	**4,757,186**	**4,753,593**
Borrowings	**20**	**18,825,773**	**47,330,978**	**-**	**66,156,751**	**65,396,044**
Total		**18,825,773**	**62,943,212**	**-**	**81,768,985**	**81,004,685**
As at December 31, 2019 (restated) (Note 53)						
Assets at fair value						
Derivative financial instruments	9	15	6,789,702	-	6,789,717	6,789,717
Investment securities	10					
- At fair value through other comprehensive income		65,909,746	7,309,989	222,927	73,442,662	73,442,662
Investment properties	13	-	-	1,693,707	1,693,707	1,693,707
Total		65,909,761	14,099,691	1,916,634	81,926,086	81,926,086
Liabilities at fair value						
Derivative financial instruments	9	-	6,949,891	-	6,949,891	6,949,891
Liabilities at amortised cost				-		
Euro commercial paper	19	-	2,074,605		2,074,605	2,062,338
Borrowings	20	18,728,489	32,244,310	-	50,972,799	51,882,054
Total		18,728,489	41,268,806	-	59,997,295	60,894,283

The Group's OTC derivatives in the trading book are classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 investments designated at FVTOCI is as follows:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Opening balance	**222,927**	251,843
Acquired on business combinations (restated) (Note 53)	**-**	37,554
Purchases, net during the year	**-**	18,119
Disposals including capital refunds during the year	**(2,857)**	(39,620)
Adjustment through other comprehensive income during the year	**(14,089)**	(44,969)
Closing balance	**205,981**	222,927

41. Fair value hierarchy (continued)

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

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

Loss of AED 1 thousand (2019 – gains of AED 23,853 thousand) was realised on disposal of Level 3 equity investments designated at FVTOCI and were transferred to retained earnings.

There were no significant transfers between Level 1 and Level 2 investments and no change in valuation techniques used during the year.

The significant unobservable inputs used in the fair value measurement of the Group's investment properties are rental income and capitalisation rates. Significant decrease in rental income, or increase in capitalisation rates, in isolation would result in a significant lower fair value measurement. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalisation rates in the same direction as increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

Unconsolidated structured entity

Level 1 financial instruments include the Group's investments in certain Funds. The total carrying value of investments in these Funds as at December 31, 2020 was AED 155,297 thousand (December 31, 2019 – AED 159,190 thousand). The Bank has not extended any revocable overdraft facilities to these Funds as at December 31, 2020 (December 31, 2019 – AED 28,365 thousand out of which AED 185 thousand was utilised and outstanding). The maximum exposure to loss in these Funds is equal to the carrying value of the investments and credit risk carried in the facilities extended, if any.

42. Risk management

Risk governance structure emphasises and balances strong central oversight and control of risk with clear accountability for ownership of risk within each business unit. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite.

Ultimate responsibility for setting out risk appetite and effective management of risk rests with the Board. This is managed through various Board level committees; namely Board Risk & Executive Committee (BREC) and Board Audit & Compliance Committee (BACC), which ensure that risk taking authority and policies are cascaded down from the Board to the appropriate business units.

Acting within the authority delegated by the Board, the BREC has overall responsibility for oversight and review of credit, market, operational, liquidity, fraud, data management, reputational, information and physical security risks. It periodically reviews and monitors compliance with the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, overseeing the management risk committees and ensuring that the Group's risk governance is supportive of prudent risk taking at all levels in the Group. The BREC receives on a regular basis, portfolio level briefings from the Group Chief Risk Officer (CRO) and Group Chief Credit Officer (CCO) along with regular reports on risk management, including portfolio trends, policy parameters, key risk indicators, results of stress testing and changes to the assumptions, liquidity measures, capital adequacy and planning, and also is authorised to investigate or seek any information relating to any activity within its terms of reference. The BREC also conducts 'deep dive' reviews on a rolling basis of different sections of the consolidated group risk information report.

42. Risk management (continued)

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 CRO reports via matrix independently to BREC and CEO. The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function exercises control over credit policy, market, liquidity, operational, fraud, compliance, data management and information security risk. The Risk function is also independent of the credit underwriting division which is headed by the Group Chief Credit Officer.

BACC provides assistance to the Board to fulfill its duties to ensure and oversee the Group's financial statements, independence and performance of the Group's external and internal auditors, adherence with legal and regulatory requirements and internal policies and internal control over financial reporting. BACC also has oversight over the Bank's compliance activities (financial crime, anti-money laundry, know your customer requirements, etc.) and CBUAE standards and regulations that affect the operations of the Bank.

The Internal Audit division (IAD) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Group's risk management, control and governance processes. The IAD reports directly to BACC. The IAD consists of a team of auditors, whose tasks are, among other things, to evaluate the quality of the Group's lending portfolio, controls in operational processes and the integrity of the Group's information systems and databases. The IAD auditors, alongside the compliance department, also ensure that transactions undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements and in accordance with the Group's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

43. Credit risk management

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

The Group's risk and credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location, etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.

43. Credit risk management (continued)

- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.
- Managing the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group wide credit policies and standards are approved by BREC. These govern all delegated lending authorities and include policies, standards, metrics, strategies and procedures specific to each of the different business segments and are decided based on the macro economic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Group's interest in changing operating conditions. In addition to Group wide policies, there are underwriting standards set for each portfolio segment. The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

Risk ratings

Internal credit risk ratings

In order to measure credit risk, the Group Risk Management has developed credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises of ten categories and 21 risk grades. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis, etc. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. The Group uses 9 rating models to effecttively rate customers based on the customer segment. These rating models have been developed internally and validated on a regular basis by both internal and external validation teams. The rating models have been calibrated based on ADCB's default rate history.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

43. Credit risk management (continued)

Risk ratings (continued)

Internal credit risk ratings (continued)

- Financial ratios – absolute values, peer analyis;
- Industry risk;
- Qualitative factors such as management strength, concentrations, etc;
- Payment record, including payment ratios and ageing analysis;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics, etc.; and
- For corporate exposures: information obtained by periodic review of customer files including review of audited financial statements and market data.

The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides an indicative mapping of the Group's internal credit risk grades to external ratings.

Rating category	Moody's	S&P	Fitch	Description
1	Aaa	AAA	AAA	Investment grade
2	Aa1 -Aa3	AA+ - AA-	AA+ - AA-	Investment grade
3	A1 - A3	A+ - A-	A+ - A-	Investment grade
4	Baa1 - Baa3	BBB+ - BBB-	BBB+ - BBB-	Investment grade
5	Ba1 - Ba3	BB+ - BB-	BB+ - BB-	Non-investment grade
6	B1 - B3	B+ - B-	B+ - B-	Non-investment grade
7	Caa1 - Caa3	CCC - CCC-	CCC – C	Watch list
8-10	Default	Default	Default	Default

Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1-7 are assigned to performing customers or accounts while credit grades 8 – 10 are assigned to non-performing or defaulting customers.

Credit ratings are used by the Group to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. The Bank also uses these internal ratings as a input to the IFRS 9 ECL model and these ratings are also used to determine the staging of the customer.

Retail customers or individual borrowers are not assigned a credit rating under this structure. However, retail banking division uses behaviour scoring for its customers.

The internal credit grade system is not intended to replicate external credit grades but factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a higher internal credit grade. The basis for determining ECL is as follows:

IFRS 9 Staging	Basis for determining ECL
1	12 months ECL
2	Lifetime ECL
3	Credit impairment based on discounted cash flow model

The quality of credit risk exposure is disclosed in note 43.2.

43. Credit risk management (continued)

Risk ratings (continued)

External credit risk ratings

The table below presents the external credit ratings of the Group's deposits and balances due from banks, gross and investment securities, gross based on S&P's rating scale. Bond issuer level ratings are used in case ratings are not available at issuance level. Wherever S&P's ratings are not available, comparable Fitch or Moody's equivalent ratings scale is used.

	As at December 31, 2020			As at December 31, 2019	
Ratings	Deposits and balances due from banks, gross AED'000	Bond securities at amortised cost, gross AED'000	Bond securities designated at FVTOCI AED'000	Deposits and balances due from banks, gross AED'000	Bond securities designated at FVTOCI AED'000
AAA to AA-	**2,111,884**	**10,343,613**	**26,466,292**	1,105,612	20,443,712
A+ to A-	**8,062,200**	**9,264,715**	**20,977,533**	8,819,203	25,917,450
BBB+ to BBB-	**3,288,547**	**1,050,940**	**7,883,971**	3,616,247	10,468,670
BB+ to B-	**7,592,772**	**781,905**	**7,651,056**	8,707,552	8,756,621
CCC+ to C-	**-**	**-**	**-**	482	-
UAE Sovereigns	**-**	**224,501**	**2,432,760**	-	5,958,193
Unrated	**526,608**	**-**	**165,396**	865,840	1,072,229
	21,582,011	**21,665,674**	**65,577,008**	23,114,936	72,616,875

Internal ratings of UAE Sovereigns and unrated bond securities with comparable external ratings are as follows:

	Internal rating	External rating	2020 AED'000	2019 AED'000
UAE Sovereigns	Grade 2 to 3	AA to A	**2,657,261**	5,958,193
Unrated	Grade 3- to 4	A-	**-**	418,929
	Grade 5 to 6	BB+ to BB	**42,834**	443,075
	Grade 7	CCC	**-**	210,225
	Grade 8	D	**122,562**	-
			2,822,657	7,030,422

Significant increase in credit risk

As explained in note 3.8(h), the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both deterioration in internal/external ratings as well as qualitative. The SICR indicators per type of asset and the rating deterioration that are determined to be significant are summarised below.

SICR – from stage 1 to stage 2 for non-retail loans and advances, debt instruments and money market instruments

Grade/facility status	SICR indicators
Investment grade	6 notches rating downgrade
Non-investment grade	3 notches rating downgrade
Across investment/non-investment grade	3 notches rating downgrade across investment to non-investment grade.
Credit restructured	Restructured for credit reasons in the last 12 months
Watch list	Flagged as watch list or accounts that are more than 30 days past due.
Others	All other criteria as per Central Bank including uncollateralized bullet loans.

43. Credit risk management (continued)

SICR – from stage 1 to stage 2 for retail loans and advances and credit cards

Criteria to determine whether credit risk has increased significantly are as follows:

- greater than 30 DPD;
- at least three times 30 DPD or more in the last 12 months;
- at least two times 60 DPD or more in the last 12 months.

In addition to above rating deterioration criteria, the Group also considers other qualitative SICR indicators as suggested in IFRS 9 and CBUAE guidelines.

Default – Stage 3

	SICR indicators
Non retail loans and advances	Sub-standard, doubtful or loss flagging – this includes all accounts that are over 90 days past due
Debt instruments and money market instruments	Sub-standard, doubtful or loss flagging
Retail loans and advances and credit cards	90 days past due

Exposure other than to a Sovereign with a rating of A (equivalent internal rating of 3) or better and Sovereign exposures with investment grade rating from an External Rating Agency (BBB- or better) will be classified as low credit risk (LCR).

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

In addition, the Group also follows a probation period for backward transition of staging:

An account has to be in stage 2 for a minimum of 12 months (cure period) for it to move to stage 1 and an account in stage 3 has to move to stage 2 before moving to stage 1.

The Group also employes customer level staging for high risk customers i.e if a customer is rated 6+ or worse, all the accounts of the customer are assigned the worse staging. The top 70% of the non retail exposures are individually assesssed for any SICR not reflected in the ratings.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit risk are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

43. Credit risk management (continued)

Incorporation of forward-looking information

The Group uses forward-looking macro-economic in its measurement of ECL. The Group Chief Economist provides the macro-economic forecasts and scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and has macro-economic models that forecast relationships between macro-economic variables and credit losses.

During the year, the Group changed its macro-economic variables forecast in line with the prevailing market conditions. The Group also reviewed its CCF parameters, LGD models and made appropriate changes. The Group also reviewed its IFRS 9 macro-economic models to confirm the models were fit for purpose.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at December 31, 2020 for the years 2020 to 2023, for UAE which is the country where the Group operates and therefore is the country that has a material impact on ECLs.

List of macro variables used	Definition	Used in	Range
Oil price, Brent USD	Price per barrel	ADCB UAE	Between USD 42 and USD 64
Real GDP growth	% change	ADCB UAE	Between -6.5% and 3.3%
Real non-oil GDP growth	% change	ADCB UAE	Between -5.7% and 3.5%
Abu Dhabi real estate sale prices	% change	ADCB UAE	Between -6.5% and 1%
Consumer inflation	% annual average	ADCB UAE	Between -2.2% and 1%
Dubai real estate sale prices	% change	ADCB UAE	Between -8% and 0%

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

Measurement of ECL

The key inputs used for measuring ECL are:

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

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

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

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

43. Credit risk management (continued)

Measurement of ECL (continued)

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 canceled only when the Group becomes aware of an increase in credit risk at the facility level.

The ECL calculation for accounting purposes is different to the provision calculation for regulatory purposes, although many inputs used are similar. The Group has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

43. Credit risk management (continued)

Credit risk disclosure

43.1 Maximum exposure to credit risk

The gross exposure to credit risk for on balance sheet items is their carrying value. For financial guarantees recorded off balance sheet, the gross exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees were to be called upon. For loans and other credit related commitments that are irrevocable over the life of the respective facilities, the gross exposure to credit risk is the full amount of the committed facilities.

The following table presents the maximum exposure of credit risk for amortised cost financial instruments, derivative financial instruments, investment securities (bonds) designated at FVTOCI and off-balance sheet financial instruments as at December 31, 2020 and 2019, after allowance for impairment and netting where appropriate and after taking into account any collateral held or other credit risk mitigants (CRMs).

	On-balance sheet AED'000	Off-balance sheet AED'000	Gross credit risk exposure AED'000	Gross CRM AED'000	Maximum credit risk exposure AED'000
As at December 31, 2020					
Cash and balances with central banks, net	**29,601,607**	**-**	**27,919,572**	**-**	**27,919,572**
Deposits and balances due from banks, net	**21,535,442**	**-**	**21,535,442**	**-**	**21,535,442**
Derivative financial instruments	**11,146,396**	**-**	**11,146,396**	**7,973,674**	**3,172,722**
Investment securities	**88,205,984**	**-**	**87,230,836**	**-**	**87,230,836**
Loans and advances to customers, net	**238,975,702**	**77,688,972**	**316,664,674**	**144,571,975**	**172,092,699**
Other assets, net	**10,081,413**	**-**	**9,988,498**	**4,951,520**	**5,036,978**
Total	**399,546,544**	**77,688,972**	**474,485,418**	**157,497,169**	**316,988,249**
As at December 31, 2019					
Cash and balances with central banks, net	24,904,966	-	23,074,738	-	23,074,738
Deposits and balances due from banks, net	23,064,974	-	23,064,974	-	23,064,974
Derivative financial instruments	6,789,717	-	6,789,717	4,954,497	1,835,220
Investment securities (*)	73,442,662	-	72,616,875	-	72,616,875
Loans and advances to customers, net (*)	247,833,080	87,715,685	335,548,765	144,861,235	190,687,530
Other assets, net	16,750,208	-	16,607,641	8,695,613	7,912,028
Total	392,785,607	87,715,685	477,702,710	158,511,345	319,191,365

(*) restated - refer note 53

43.2 Gross exposure

An analysis of the Group's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

43. Credit risk management (continued)

43.2 Gross exposure (continued)

As at December 31, 2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1 - 4	**153,592,666**	**1,913,110**	**-**	**-**	**155,505,776**
Grades 5 - 6	**83,568,899**	**9,317,679**	**15,946**	**-**	**92,902,524**
Grade 7	**4,358,239**	**9,226,163**	**169,948**	**-**	**13,754,350**
Grades 8 – 10	**-**	**-**	**14,697,274**	**4,213,043**	**18,910,317**
Unrated	**47,736,963**	**1,780,206**	**924,539**	**112,902**	**50,554,610**
Gross financial instruments carried at amortised cost	**289,256,767**	**22,237,158**	**15,807,707**	**4,325,945**	**331,627,577**
Debt instruments designated at FVTOCI					
Grades 1 – 4	**57,732,216**	**-**	**-**	**-**	**57,732,216**
Grades 5 – 6	**6,395,793**	**1,326,437**	**-**	**-**	**7,722,230**
Grade 8 - 10	**-**	**-**	**122,562**	**-**	**122,562**
Gross debt instruments designated at FVTOCI	**64,128,009**	**1,326,437**	**122,562**	**-**	**65,577,008**
Commitments and contingent liabilities					
Grades 1 – 4	**39,247,234**	**127,341**	**-**	**-**	**39,374,575**
Grades 5 – 6	**26,583,446**	**2,597,546**	**-**	**-**	**29,180,992**
Grade 7	**5,788,941**	**2,267,613**	**-**	**-**	**8,056,554**
Grades 8 – 10	**-**	**-**	**-**	**590,196**	**590,196**
Unrated	**486,655**	**-**	**-**	**-**	**486,655**
Total commitments and contingent liabilities	**72,106,276**	**4,992,500**	**-**	**590,196**	**77,688,972**

As at December 31, 2019	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost (restated) (Note 53)					
Grades 1 - 4	142,813,914	459,862	-	-	143,273,776
Grades 5 - 6	84,333,357	9,937,227	449,146	-	94,719,730
Grade 7	4,866,580	9,255,035	275,941	-	14,397,556
Grades 8 – 10	-	-	6,882,654	3,726,497	10,609,151
Unrated	52,031,291	1,952,275	866,816	132,739	54,983,121
Gross financial instruments carried at amortised cost	284,045,142	21,604,399	8,474,557	3,859,236	317,983,334
Debt instruments designated at FVTOCI					
Grades 1 – 4	62,711,131	-	-	-	62,711,131
Grades 5 – 6	7,165,943	2,529,575	-	-	9,695,518
Grade 7	-	-	210,226	-	210,226
Gross debt instruments designated at FVTOCI	69,877,074	2,529,575	210,226	-	72,616,875
Commitments and contingent liabilities					
Grades 1 – 4	44,424,128	136,837	-	-	44,560,965
Grades 5 – 6	32,162,448	2,307,143	-	-	34,469,591
Grade 7	4,440,473	2,808,267	-	-	7,248,740
Grades 8 – 10	-	-	-	932,213	932,213
Unrated	494,498	-	-	9,678	504,176
Total commitments and contingent liabilities	81,521,547	5,252,247	-	941,891	87,715,685

43. Credit risk management (continued)

43.2 Gross exposure (continued)

The movement of gross exposure is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2020 (*)	284,045,142	21,604,399	8,474,557	3,859,236	317,983,334
- Transfer from stage 1 to stage 2	(7,586,560)	7,586,560	-	-	-
- Transfer from stage 1 to stage 3	(6,060,825)	-	6,060,825	-	-
- Transfer from stage 2 to stage 1	2,661,144	(2,661,144)	-	-	-
- Transfer from stage 2 to stage 3	-	(2,585,642)	2,585,642	-	-
- Transfer from stage 3 to stage 2	-	197,706	(197,706)	-	-
Other movements within the same stage	3,472,711	(604,106)	103,585	(156,495)	2,815,695
New financial assets originated/purchased	75,783,818	1,572,149	1,156,967	-	78,512,934
Financial assets derecognised	(63,058,663)	(2,872,764)	(580,559)	(268,918)	(66,780,904)
Adjustments to gross carrying value due to changes in estimated cash flows	-	-	-	892,122	892,122
Net amounts written-off	-	-	(1,795,604)	-	(1,795,604)
Balance as at December 31, 2020	289,256,767	22,237,158	15,807,707	4,325,945	331,627,577

(*) restated - refer note 53

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Debt instruments designated at FVTOCI					
Balance as at January 1, 2020	69,877,074	2,529,575	210,226	-	72,616,875
- Transfer from stage 1 to stage 2	(202,226)	202,226	-	-	-
- Transfer from stage 1 to stage 3	(83,614)	-	83,614	-	-
- Transfer from stage 2 to stage 1	216,874	(216,874)	-	-	-
Other movements within the same stage	2,308,018	16,534	(49,541)	-	2,275,011
New financial assets purchased	18,062,502	-	-	-	18,062,502
Financial assets derecognised	(26,050,619)	(1,205,024)	-	-	(27,255,643)
Net amounts written-off	-	-	(121,737)	-	(121,737)
Balance as at December 31, 2020	64,128,009	1,326,437	122,562	-	65,577,008
Commitments and contingent liabilities					
Balance as at January 1, 2020	81,521,547	5,252,247	-	941,891	87,715,685
- Transfer from stage 1 to stage 2	(1,985,683)	1,985,683	-	-	-
- Transfer from stage 2 to stage 1	812,148	(812,148)	-	-	-
Other movements within the same stage	(4,799,411)	(443,672)	-	(26,185)	(5,269,268)
New financial assets originated/purchased	19,910,589	654,281	-	-	20,564,870
Financial assets derecognised	(23,352,914)	(1,643,891)	-	(325,510)	(25,322,315)
Balance as at December 31, 2020	72,106,276	4,992,500	-	590,196	77,688,972

43. Credit risk management (continued)

43.2 Gross exposure (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2019	204,768,887	16,374,185	5,227,162	-	226,370,234
Addition on business combinations (*)	94,905,118	-	-	4,250,372	99,155,490
- Transfer from stage 1 to stage 2	(6,497,075)	6,497,075	-	-	-
- Transfer from stage 1 to stage 3	(2,865,333)	-	2,865,333	-	-
- Transfer from stage 2 to stage 1	1,297,572	(1,297,572)	-	-	-
- Transfer from stage 2 to stage 3	-	(2,537,089)	2,537,089	-	-
- Transfer from stage 3 to stage 1	1,030	-	(1,030)	-	-
- Transfer from stage 3 to stage 2	-	51,556	(51,556)	-	-
Other movements within the same stage	(11,191,142)	1,914,111	(17,020)	(252,176)	(9,546,227)
New financial assets originated/purchased	55,931,880	1,886,818	87,268		57,905,966
Financial assets derecognised	(52,305,795)	(1,284,685)	(248,058)	(97,295)	(53,935,833)
Net amounts written-off	-	-	(1,924,631)	(41,665)	(1,966,296)
Balance as at December 31, 2019 (*)	284,045,142	21,604,399	8,474,557	3,859,236	317,983,334

(*) restated - refer note 53

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Debt instruments designated at FVTOCI					
Balance as at January 1, 2019	50,569,471	1,390,684	-	-	51,960,155
Addition on business combinations	20,164,428	-	-	-	20,164,428
- Transfer from stage 1 to stage 2	(1,174,443)	1,174,443	-	-	-
- Transfer from stage 2 to stage 3	-	(251,845)	251,845	-	-
Other movements within the same stage	1,560,563	216,293	(41,619)	-	1,735,237
New financial assets purchased	29,443,129	-	-	-	29,443,129
Financial assets derecognised	(30,686,074)	-	-	-	(30,686,074)
Balance as at December 31, 2019	69,877,074	2,529,575	210,226	-	72,616,875
Commitments and contingent liabilities					
Balance as at January 1, 2019	45,821,131	2,703,729	-	-	48,524,860
Addition on business combinations	37,820,672	-	-	1,185,966	39,006,638
- Transfer from stage 1 to stage 2	(2,152,154)	2,152,154	-	-	-
- Transfer from stage 2 to stage 1	300,145	(300,145)	-	-	-
Other movements within the same stage	(5,379,011)	1,004,548	-	(244,075)	(4,618,538)
New financial assets originated/purchased	20,772,101	525,500	-	-	21,297,601
Financial assets derecognised	(15,661,337)	(833,539)	-	-	(16,494,876)
Balance as at December 31, 2019	81,521,547	5,252,247	-	941,891	87,715,685

43. Credit risk management (continued)

43.3 Expected credit losses

The table below summarises impairment allowance as at year end per class of exposure/asset, internal rating and stage:

As at December 31, 2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1 – 4	**27,709**	**4,381**	**-**	**-**	**32,090**
Grades 5 – 6	**328,040**	**634,754**	**8,819**	**-**	**971,613**
Grade 7	**204,354**	**2,292,375**	**14,573**	**-**	**2,511,302**
Grades 8 – 10	**-**	**-**	**6,254,976**	**544,740**	**6,799,716**
Unrated	**317,706**	**414,582**	**483,213**	**24,313**	**1,239,814**
Allowance for impairment	**877,809**	**3,346,092**	**6,761,581**	**569,053**	**11,554,535**
Debt instruments designated at FVTOCI					
Grades 1 – 4	**13,911**	**-**	**-**	**-**	**13,911**
Grades 5 – 6	**35,482**	**23,116**	**-**	**-**	**58,598**
Grade 8 - 10	**-**	**-**	**157,311**	**-**	**157,311**
Allowance for impairment	**49,393**	**23,116**	**157,311**	**-**	**229,820**
Commitments and contingent liabilities					
Grades 1 – 4	**9,308**	**557**	**-**	**-**	**9,865**
Grades 5 – 6	**79,488**	**115,292**	**-**	**-**	**194,780**
Grade 7	**60,128**	**148,340**	**-**	**-**	**208,468**
Grades 8 – 10	**-**	**-**	**-**	**131,603**	**131,603**
Unrated	**198**	**-**	**-**	**-**	**198**
Allowance for impairment	**149,122**	**264,189**	**-**	**131,603**	**544,914**
Total allowance for impairment	**1,076,324**	**3,633,397**	**6,918,892**	**700,656**	**12,329,269**

As at December 31, 2019	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1 – 4	34,265	2,082	-	-	36,347
Grades 5 – 6	252,428	291,212	23,118	-	566,758
Grade 7	160,877	2,409,469	26,600	-	2,596,946
Grades 8 – 10	-	-	2,926,811	72,475	2,999,286
Unrated	393,894	285,261	524,409	-	1,203,564
Allowance for impairment	841,464	2,988,024	3,500,938	72,475	7,402,901
Debt instruments designated at FVTOCI					
Grades 1 – 4	10,066	-	-	-	10,066
Grades 5 – 6	16,124	27,708	-	-	43,832
Grade 7	-	-	206,519	-	206,519
Allowance for impairment	26,190	27,708	206,519	-	260,417
Commitments and contingent liabilities					
Grades 1 – 4	32,257	5,882	-	-	38,139
Grades 5 – 6	203,114	127,977	-	-	331,091
Grade 7	197,135	480,367	-	-	677,502
Grades 8 – 10	-	-	-	383,617	383,617
Unrated	731	-	-	1,283	2,014
Allowance for impairment	433,237	614,226	-	384,900	1,432,363
Total allowance for impairment	1,300,891	3,629,958	3,707,457	457,375	9,095,681

43. Credit risk management (continued)

43.3 Expected credit losses (continued)

Allocation of impairment allowance for the year ended December 31, 2020 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balances with central banks (Note 7)	**465**	**-**	**-**	**-**	**465**
Deposits and balances due from banks (Note 8)	**45,721**	**848**	**-**	**-**	**46,569**
Investment securities at amortised cost (Note 10)	**11,846**	**-**	**-**	**-**	**11,846**
Investment securities designated at FVTOCI (Note 10) (*)	**49,393**	**23,116**	**157,311**	**-**	**229,820**
Loans and advances to customers (Note 11)	**815,455**	**3,343,489**	**6,750,936**	**567,648**	**11,477,528**
Other assets (Note 14)	**4,322**	**1,755**	**10,645**	**1,405**	**18,127**
Letters of credit, guarantees and other commitments (Note 21)	**149,122**	**264,189**	**-**	**131,603**	**544,914**
Total allowance for impairment	**1,076,324**	**3,633,397**	**6,918,892**	**700,656**	**12,329,269**

(*) recognised under "Revaluation reserve of investments designated at FVTOCI".

Allocation of impairment allowance for the year ended December 31, 2019 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balances with central banks (Note 7)	247	-	-	-	247
Deposits and balances due from banks (Note 8)	45,726	4,236	-	-	49,962
Investment securities designated at FVTOCI (Note 10) (*)	26,190	27,708	206,519	-	260,417
Loans and advances to customers (Note 11)	787,274	2,982,378	3,492,708	71,050	7,333,410
Other assets (Note 14)	8,217	1,410	8,230	1,425	19,282
Letters of credit, guarantees and other commitments (Note 21)	433,237	614,226	-	384,900	1,432,363
Total allowance for impairment	1,300,891	3,629,958	3,707,457	457,375	9,095,681

(*) recognised under "Revaluation reserve of investments designated at FVTOCI".

43. Credit risk management (continued)

43.3 Expected credit losses (continued)

The movement in impairment allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2020	841,464	2,988,024	3,500,938	72,475	7,402,901
- Transfer from stage 1 to stage 2	(102,752)	102,752	-	-	-
- Transfer from stage 1 to stage 3	(35,947)	-	35,947	-	-
- Transfer from stage 2 to stage 1	71,222	(71,222)	-	-	-
- Transfer from stage 2 to stage 3	-	(754,553)	754,553	-	-
- Transfer from stage 3 to stage 2	-	42,934	(42,934)	-	-
Other movements within the same stage	111,768	922,468	3,579,433	(393,742)	4,219,927
New financial assets originated/purchased	161,223	144,632	909,284	-	1,215,139
Financial assets derecognised	(204,120)	(79,934)	(186,652)	(1,802)	(472,508)
Changes to methodologies, assumptions and risk parameters (*)	34,951	50,991	6,616	-	92,558
Gross (release)/charge for the year	36,345	358,068	5,056,247	(395,544)	5,055,116
Recoveries	-	-	(284,568)	-	(284,568)
Net (release)/charge for the year	36,345	358,068	4,771,679	(395,544)	4,770,548
Adjustments to gross carrying value	-	-	-	892,122	892,122
Net amounts written-off	-	-	(1,511,036)	-	(1,511,036)
Balance as at December 31, 2020	877,809	3,346,092	6,761,581	569,053	11,554,535
Debt instruments designated at FVTOCI					
Balance as at January 1, 2020	26,190	27,708	206,519	-	260,417
- Transfer from stage 1 to stage 2	(418)	418	-	-	-
- Transfer from stage 1 to stage 3	(172)	-	172	-	
- Transfer from stage 2 to stage 1	487	(487)	-	-	-
Other movements within the same stage	3,712	8,431	72,357	-	84,500
New financial assets originated/purchased	27,067	-	-	-	27,067
Financial assets derecognised	(7,092)	(11,170)	-	-	(18,262)
Changes to methodologies, assumptions and risk parameters (*)	(381)	(1,784)	-	-	(2,165)
Net charge/(release) for the year	23,203	(4,592)	72,529	-	91,140
Net amounts written-off	-	-	(121,737)	-	(121,737)
Balance as at December 31, 2020	49,393	23,116	157,311	-	229,820
Commitments and contingent liabilities					
Balance as at January 1, 2020	433,237	614,226	-	384,900	1,432,363
- Transfer from stage 1 to stage 2	(54,157)	54,157	-	-	-
- Transfer from stage 2 to stage 1	51,940	(51,940)	-	-	-
Other movements within the same stage	91,163	192,289	-	(124,247)	159,205
New financial assets originated/purchased	25,995	76,183	-	-	102,178
Financial assets derecognised	(200,300)	(240,681)	-	(129,050)	(570,031)
Changes to methodologies, assumptions and risk parameters (*)	(198,756)	(380,045)	-	-	(578,801)
Net release for the year	(284,115)	(350,037)	-	(253,297)	(887,449)
Balance as at December 31, 2020	149,122	264,189	-	131,603	544,914

(*) included in 'Recoveries/modifications during the year' in note 33

43. Credit risk management (continued)

43.3 Expected credit losses (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2019	851,912	2,987,774	2,935,970	-	6,775,656
Addition on business combinations	5,184	-	-	38,985	44,169
- Transfer from stage 1 to stage 2	(44,253)	44,253	-	-	-
- Transfer from stage 1 to stage 3	(56,757)	-	56,757	-	-
- Transfer from stage 2 to stage 1	114,947	(114,947)	-	-	-
- Transfer from stage 2 to stage 3	-	(540,828)	540,828	-	-
- Transfer from stage 3 to stage 1	531	-	(531)	-	-
- Transfer from stage 3 to stage 2	-	15,825	(15,825)	-	-
Other movements within the same stage	(65,069)	520,308	1,803,071	75,155	2,333,465
New financial assets originated/purchased	248,384	151,910	264,689	-	664,983
Financial assets derecognised	(142,112)	(67,510)	(159,292)	-	(368,914)
Changes to methodologies, assumptions and risk parameters (*)	(71,303)	(8,761)	(97)	-	(80,161)
Gross (release)/charge for the year	(15,632)	250	2,489,600	75,155	2,549,373
Recoveries	-	-	(234,525)	-	(234,525)
Net (release)/charge for the year	(15,632)	250	2,255,075	75,155	2,314,848
Net amounts written-off	-	-	(1,690,107)	(41,665)	(1,731,772)
Balance as at December 31, 2019	841,464	2,988,024	3,500,938	72,475	7,402,901
Debt instruments designated at FVTOCI					
Balance as at January 1, 2019	23,932	159,503	-	-	183,435
- Transfer from stage 1 to stage 2	(920)	920	-	-	-
- Transfer from stage 2 to stage 3	-	(129,919)	129,919	-	-
Other movements within the same stage	4,354	(131)	76,600	-	80,823
New financial assets originated/purchased	7,378	-	-	-	7,378
Financial assets derecognised	(2,697)	-	-	-	(2,697)
Changes to methodologies, assumptions and risk parameters (*)	(5,857)	(2,665)	-	-	(8,522)
Net charge/(release) for the year	2,258	(131,795)	206,519	-	76,982
Balance as at December 31, 2019	26,190	27,708	206,519	-	260,417
Commitments and contingent liabilities					
Balance as at January 1, 2019	112,712	237,040	-	-	349,752
Addition on business combinations	625,643	-	-	496,744	1,122,387
- Transfer from stage 1 to stage 2	(318,547)	318,547	-	-	-
- Transfer from stage 2 to stage 1	6,181	(6,181)	-	-	-
Other movements within the same stage	(13,564)	43,853		(111,844)	(81,555)
New financial assets originated/purchased	72,291	73,899	-	-	146,190
Financial assets derecognised	(28,479)	(55,053)	-	-	(83,532)
Changes to methodologies, assumptions and risk parameters (*)	(23,000)	2,121	-	-	(20,879)
Net (release)/charge for the year	(305,118)	377,186	-	(111,844)	(39,776)
Balance as at December 31, 2019	433,237	614,226	-	384,900	1,432,363

(*) included in 'Recoveries/modifications during the year' in note 33

43. Credit risk management (continued)

43.4 Concentration of credit risk

Concentration of credit risk arises when a number of counterparties or exposures have comparable economic characteristics or such counterparties are engaged in similar activities or operate in the same geographical areas or economic sectors that would impact their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below are based on the location of the counterparty or customer or the economic activity in which they are engaged.

(a) Credit risk concentration by geographical sector

	Domestic (UAE) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	USA AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2020								
Assets								
Balances with central banks, net	**26,978,157**	**239,826**	**575,784**	**125,805**	**-**	**-**	**-**	**27,919,572**
Deposits and balances due from banks, net	**6,529,617**	**2,627,959**	**1,243,430**	**3,247,312**	**5,708,785**	**751,598**	**1,426,741**	**21,535,442**
Derivative financial instruments	**3,932,857**	**140,605**	**-**	**5,086**	**6,685,053**	**-**	**382,795**	**11,146,396**
Investment securities – bonds	**40,979,594**	**22,925,664**	**4,119,168**	**9,907,671**	**2,525,456**	**3,000,609**	**3,772,674**	**87,230,836**
Loans and advances to customers, net	**222,289,019**	**4,662,455**	**5,555,642**	**2,099,793**	**2,294,123**	**4,248**	**2,070,422**	**238,975,702**
Other assets, net	**5,809,890**	**342,928**	**387,661**	**847,056**	**2,108,426**	**6,870**	**485,667**	**9,988,498**
Total	**306,519,134**	**30,939,437**	**11,881,685**	**16,232,723**	**19,321,843**	**3,763,325**	**8,138,299**	**396,796,446**
Commitment and contingent liabilities	**63,402,986**	**3,659,189**	**1,205,792**	**3,488,515**	**4,218,907**	**945,463**	**768,120**	**77,688,972**
As at December 31, 2019								
Assets								
Balances with central banks, net	22,350,082	138,029	515,860	70,767	-	-	-	23,074,738
Deposits and balances due from banks, net	8,007,700	2,099,518	1,819,849	4,149,957	4,941,037	41,365	2,005,548	23,064,974
Derivative financial instruments	2,517,614	52,462	-	3,422	3,999,654	-	216,565	6,789,717
Investment securities – bonds	33,894,947	19,170,347	2,914,351	9,210,571	3,689,693	1,067,911	2,669,055	72,616,875
Loans and advances to customers, net (*)	233,336,762	4,566,708	4,873,654	2,160,415	492,784	130,939	2,271,818	247,833,080
Other assets, net	8,586,267	262,323	110,412	4,416,754	2,620,613	29,904	581,368	16,607,641
Total	308,693,372	26,289,387	10,234,126	20,011,886	15,743,781	1,270,119	7,744,354	389,987,025
Commitment and contingent liabilities	74,053,799	2,252,836	1,349,318	4,888,708	3,302,476	1,009,258	859,290	87,715,685

(*) restated - refer note 53

43. Credit risk management (continued)

43.4 Concentration of credit risk (continued)

(b) Credit risk concentration by economic/industry sector

The economic activity sector composition of the loans and advances to customers is as follows:

	As at December 31, 2020			As at December 31, 2019 (restated)(Note 53)		
	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000
Economic activity sector						
Agriculture	**276,765**	**128,612**	**405,377**	203,757	51,745	255,502
Energy	**1,237,753**	**4,461,593**	**5,699,346**	1,645,117	1,838,315	3,483,432
Trading	**6,817,285**	**2,267,950**	**9,085,235**	8,698,087	1,712,628	10,410,715
Real estate investment	**71,399,603**	**1,236,474**	**72,636,077**	70,341,764	1,232,939	71,574,703
Hospitality	**10,409,772**	**510,032**	**10,919,804**	10,866,285	514,118	11,380,403
Transport and communication	**2,592,290**	**1,343,401**	**3,935,691**	2,841,693	1,849,401	4,691,094
Personal	**53,349,371**	**1,501,343**	**54,850,714**	59,679,910	1,173,687	60,853,597
Government and public sector entities	**53,062,107**	**589,341**	**53,651,448**	51,019,692	502,210	51,521,902
Financial institutions (*)	**14,687,727**	**3,065,521**	**17,753,248**	14,736,256	3,665,901	18,402,157
Manufacturing	**4,280,826**	**1,758,761**	**6,039,587**	5,274,291	1,983,287	7,257,578
Services	**5,604,901**	**303,227**	**5,908,128**	5,426,309	299,124	5,725,433
Others	**9,259,063**	**309,512**	**9,568,575**	9,311,793	298,181	9,609,974
	232,977,463	**17,475,767**	**250,453,230**	240,044,954	15,121,536	255,166,490
Less: Allowance for impairment			**(11,477,528)**			(7,333,410)
Total loans and advances to customers, net			**238,975,702**			247,833,080

(*) includes investment companies

As at reporting date, the 20 largest customer loan exposures constitute 27.67% of the gross loans and advances to customers (December 31, 2019 – 27.58%).

The industry sector composition of other exposures is as follows:

	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
As at December 31, 2020						
Assets						
Balances with central banks, net	**-**	**-**	**-**	**27,919,572**	**-**	**27,919,572**
Deposits and balances due from banks, net	**-**	**-**	**-**	**-**	**21,535,442**	**21,535,442**
Derivative financial instruments	**932,217**	**537,132**	**1,070,569**	**875,948**	**7,730,530**	**11,146,396**
Investment securities – bonds	**3,327,393**	**-**	**22,045,655**	**52,417,750**	**9,440,038**	**87,230,836**
Other assets, net	**6,768,855**	**486,574**	**249,464**	**393,826**	**2,089,779**	**9,988,498**
Total	**11,028,465**	**1,023,706**	**23,365,688**	**81,607,096**	**40,795,789**	**157,820,744**
Commitment and contingent liabilities	**44,137,409**	**1,886,025**	**19,118,877**	**1,403,190**	**11,143,471**	**77,688,972**
As at December 31, 2019						
Assets						
Balances with central banks, net	-	-	-	23,074,738	-	23,074,738
Deposits and balances due from banks, net	-	-	-	-	23,064,974	23,064,974
Derivative financial instruments	624,362	231,344	821,230	430,692	4,682,089	6,789,717
Investment securities – bonds	2,078,157	-	16,685,917	41,273,292	12,579,509	72,616,875
Other assets, net	12,730,053	600,807	390,354	280,006	2,606,421	16,607,641
Total	15,432,572	832,151	17,897,501	65,058,728	42,932,993	142,153,945
Commitment and contingent liabilities	54,322,995	2,227,179	15,776,875	2,664,020	12,724,616	87,715,685

43. Credit risk management (continued)

43.5 Credit risk measurement and mitigation policies

Loans and advances to customers is the main source of credit risk although the Group can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite and to monitor the risks and adherence to limits by means of reliable and timely data. The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.

Collateral

The Group holds collateral against various credit risk exposures in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The principal collateral types for loans and advances are:

- Cash and marketable securities;
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Guarantees.

The estimated fair value of collateral and other security enhancements held against various credit risk exposures for the year ended December 31, 2020 was AED 238,642,874 thousand (December 31, 2019 - AED 247,161,187 thousand).

Collateral held as security against impaired loans primarily relates to commercial and residential properties and securities. Where the estimated fair value of collateral held exceeds the outstanding loan, any excess on realisation is paid back to the customers and is not available for offset against other loans.

Write-off

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 180 days past due for retail and SME loans. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

43. Credit risk management (continued)

43.5 Credit risk measurement and mitigation policies (continued)

Derivatives

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. positive fair value of assets), which in relation to derivatives is a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers together with potential exposures from market movements.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Group's market transactions on any single day.

The following table represents internal credit ratings of derivative financial instruments:

	As at December 31 2020 AED'000	As at December 31 2019 AED'000
Internal risk grades		
Grades 1 to 4	**8,548,556**	5,160,691
Grades 5 to 6	**2,561,678**	1,536,539
Grade 7	**-**	74,873
Unrated	**36,162**	17,614
	11,146,396	6,789,717

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis, hence the impact of netting in practice is immaterial.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a year, as it is affected by each transaction subject to the arrangement.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Group's independent credit assessment. Credit risk in derivatives is mitigated through limit control and master netting arrangements.

43. Credit risk management (continued)

43.5 Credit risk measurement and mitigation policies (continued)

Off-balance sheet

The Group applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks with the exception that the worse staging for off-balance sheet exposures is stage 2. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

44. Interest rate risk framework, measurement and monitoring

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring of interest rate gaps, economic value of equity and earnings at risk and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Group's Treasury division, which uses derivative instruments such as interest rate swaps and cross currency interest rate swaps to manage the overall interest rate risk arising from the Group's interest bearing financial instruments.

Financial assets and liabilities exposed to interest rate risk are assets and liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Group's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, and borrowings fall under this category. Interest rate sensitivity position of floating rate financial instruments is based on either repricing date or maturity date while that of fixed rate financial instruments is based on maturity date.

Derivative financial instruments (other than those designated in a hedge relationship) and trading book assets and liabilities (excluding non-interest bearing) are included in the 'less than 3 months' column at their fair value. Derivative financial instruments designated in a hedge relationship are included according to their contractual next re-pricing tenor.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity and mutual funds, commodity and currency derivatives and cash and balances with central banks excluding overnight and certificate of deposits.

The off-balance sheet gap represents the net notional amounts of the off-balance sheet financial instruments, such as interest rate and cross currency interest rate swaps which are used to manage interest rate risk.

The Group uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO).

44. Interest rate risk framework, measurement and monitoring (continued)

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2020 is as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks, net	17,228,201	-	-	-	-	12,373,406	29,601,607
Deposits and balances due from banks, net	13,987,000	4,604,738	1,675,691	73,269	81	1,194,663	21,535,442
Derivative financial instruments	10,072,987	-	-	916	-	1,072,493	11,146,396
Investment securities	2,883,263	7,323,330	4,464,989	21,166,355	51,392,899	975,148	88,205,984
Loans and advances to customers, net	197,009,273	14,758,869	6,659,016	7,443,910	25,080,186	(11,975,552)	238,975,702
Investment in associates	-	-	-	-	-	255,868	255,868
Investment properties	-	-	-	-	-	1,643,956	1,643,956
Other assets, net	-	-	-	-	-	10,081,413	10,081,413
Property and equipment, net	-	-	-	-	-	2,058,575	2,058,575
Intangible assets, net	-	-	-	-	-	7,390,291	7,390,291
Assets held for sale	-	-	-	-	-	261,067	261,067
Total assets	241,180,724	26,686,937	12,799,696	28,684,450	76,473,166	25,331,328	411,156,301
Liabilities and equity							
Due to banks	4,981,850	565,426	1,265,434	-	-	1,409,361	8,222,071
Derivative financial instruments	10,080,042	50,553	4,676	24,723	38,444	656,610	10,855,048
Deposits from customers	149,432,588	19,692,234	9,849,597	3,094,453	88,503	69,238,082	251,395,457
Euro commercial paper	2,623,117	542,438	1,588,038	-	-	-	4,753,593
Borrowings	17,540,312	7,052,261	3,567,802	12,559,876	24,675,793	-	65,396,044
Other liabilities	-	-	-	-	-	13,927,975	13,927,975
Liabilities related to assets held for sale	-	-	-	-	-	4,725	4,725
Equity	-	-	-	-	-	56,601,388	56,601,388
Total liabilities and equity	184,657,909	27,902,912	16,275,547	15,679,052	24,802,740	141,838,141	411,156,301
On-balance sheet gap	56,522,815	(1,215,975)	(3,475,851)	13,005,398	51,670,426	(116,506,813)	-
Off-balance sheet gap	3,043,917	(3,443,517)	(1,373,035)	(2,692,164)	4,464,799	-	-
Total interest rate sensitivity gap	59,566,732	(4,659,492)	(4,848,886)	10,313,234	56,135,225	(116,506,813)	-
Cumulative interest rate sensitivity gap	59,566,732	54,907,240	50,058,354	60,371,588	116,506,813	-	-

Non-interest bearing items include mainly impairment allowances under loans and advances to customers.

44. Interest rate risk framework, measurement and monitoring (continued)

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2019 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks, net	3,916,366	925,000	-	-	-	20,063,600	24,904,966
Deposits and balances due from banks, net	14,339,262	4,564,997	3,009,306	-	-	1,151,409	23,064,974
Derivative financial instruments	5,909,711	50,510	-	-	-	829,496	6,789,717
Investment securities (*)	10,386,061	3,775,714	5,110,890	23,590,702	29,753,508	825,787	73,442,662
Loans and advances to customers, net (*)	190,566,360	25,120,764	6,827,243	8,666,427	25,289,329	(8,637,043)	247,833,080
Investment in associates	-	-	-	-	-	407,768	407,768
Investment properties	-	-	-	-	-	1,693,707	1,693,707
Other assets, net	-	-	-	-	-	16,750,208	16,750,208
Property and equipment, net	-	-	-	-	-	2,197,571	2,197,571
Intangible assets, net (*)	-	-	-	-	-	7,474,342	7,474,342
Assets held for sale	-	-	-	-	-	535,830	535,830
Total assets	225,117,760	34,436,985	14,947,439	32,257,129	55,042,837	43,292,675	405,094,825
Liabilities and equity							
Due to banks	3,186,219	109,821	36,730	660,911	-	1,739,098	5,732,779
Derivative financial instruments	6,179,120	35,257	-	-	-	735,514	6,949,891
Deposits from customers	139,863,952	32,357,423	25,673,762	3,222,513	231,486	60,744,646	262,093,782
Euro commercial paper	1,382,071	462,732	217,535	-	-	-	2,062,338
Borrowings	15,825,363	371,360	784,949	4,215,790	30,684,592	-	51,882,054
Other liabilities	-	-	-	-	-	20,302,794	20,302,794
Liabilities related to assets held for sale	-	-	-	-	-	413,395	413,395
Equity (*)	-	-	-	-	-	55,657,792	55,657,792
Total liabilities and equity	166,436,725	33,336,593	26,712,976	8,099,214	30,916,078	139,593,239	405,094,825
On-balance sheet gap	58,681,035	1,100,392	(11,765,537)	24,157,915	24,126,759	(96,300,564)	-
Off-balance sheet gap	7,782,963	(332,626)	(3,067,581)	(8,639,002)	4,256,246	-	-
Total interest rate sensitivity gap	66,463,998	767,766	(14,833,118)	15,518,913	28,383,005	(96,300,564)	-
Cumulative interest rate sensitivity gap	66,463,998	67,231,764	52,398,646	67,917,559	96,300,564	-	-

(*) restated - refer note 53

Non-interest bearing items include mainly impairment allowances under loans and advances to customers.

45. Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management process

The Group has Board of Directors (BOD) approved liquidity risk appetite framework which establishes the minimum liquidity to be carried by the Group in order to survive a stress environment for a stipulated time horizon. The BOD has delegated to Management Executive Committee (MEC) the responsibility of liquidity management which is overseen on their behalf by the Asset Liability Committee (ALCO) on a day to day basis. ALCO sets and monitors liquidity ratios and regularly revises and calibrates the liquidity management policies to ensure that the Group is in a position to meet its obligations as they fall due. ALCO also ensures that the bank remains compliant with all regulatory and internal policy guidelines pertaining to liquidity risk.

The Group's liquidity management process, as carried out within the Group and monitored by the Group's Treasury division includes:

- Monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Group can meet the required outflows;
- Conducting regularly liquidity stress testing of the Group's liquidity position under a variety of scenarios covering both normal and more severe market conditions with triggers and suggested actions;
- Ensuring regular compliance with the liquidity ratios such as Net Stable Funding Ratio (NSFR) and Liquidity Coverage ratio (LCR) stipulated by CBUAE and internally approved management triggers for liquidity risk;
- Conducting regular enterprise wide liquidity stress test which estimates liquidity requirements under idiosyncratic and systemic stress conditions. The enterprise wide stress test incorporates diverse liquidity triggers like currency de-peg, failure of a major local bank, credit rating downgrades in addition to regular stress cash flow analysis; and
- Monitoring of depositor concentration to ensure that the Group's deposit funding is well diversified.

Monitoring composition of funding sources at a granular level includes setting triggers for avoiding concentration of funding by product. The concentration of funding sources is monitored as percentage of the total liability and equity position. Some of the ratios monitored are as follows:

- Euro commercial paper to total liabilities and equity
- Wholesale funds to total liabilities and equity
- Money market deposits to total liabilities and equity
- Core deposits to customer deposits
- Offshore funds to total liabilities and equity

The Group has established several early warning indicators for liquidity risk in line with the CBUAE requirements and monitors them regularly. Some of the key early warning indicators are as follows:

- Credit rating downgrade
- Decline in stock price
- Widening credit-default-swap levels
- Rising retail/wholesale funding costs
- Increased collateral calls

The Group has also established a breach management and escalation process with clear definition of roles and responsibilities.

45. Liquidity risk framework, measurement and monitoring (continued)

Liquidity risk management process (continued)

Tools for liquidity management

The Group through its Treasury division ensures that it has access to diverse sources of funding ranging from local customer deposits from its retail, corporate and institutional customers as well as international sovereign wealth funds and central banks to long term funding such as debt securities and subordinated liabilities issued under the global medium term note program.

Whilst the Group's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities which increase the liquidity risk of the Group. The Group's Treasury division manages this risk by:

- Diversification of funding sources and balancing between long term and short term funding sources through borrowing under its global medium term notes issue programs;
- Monitoring the stickiness of liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- Investing in various short-term or medium term but highly marketable assets in line with Basel-III guidelines for High Quality Liquid Assets (HQLA) such as certificate of deposit with Central Bank, investment grade bonds that can be repurchased at short notices, etc.

Further, the Bank also has the following facilities from CBUAE to manage its liquidity risk during critical times:

- Drawdown against its cash reserves at base rate plus a spread of 400 basis points; and
- Repo facility against CDs HQLA under CBUAE Marginal Lending Facility (MLF) at base rate plus a spread of 100 basis points;

Base rate is currently set at US Federal Reserve's interest payable on excess reserves.

The Bank also has access to CBUAE's Targeted Economic Support Scheme to contain the repercussion of the Covid-19 pandemic. This collateralised zero cost funding scheme (expected to expire on June 30, 2021) aims to provide temporary relief and support the recovery of clients directly affected by the pandemic.

The Bank has in place a contingent funding plan which lists out the trigger points to be monitored for invoking the contingent funding plan. The trigger points are based on market observable data points like credit spreads and internal and external events like decline in customer deposits and drying up of wholesale markets. The contingent funding plan clearly defines the roles and responsibilities and is updated with changing market conditions by ALCO.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period date to the contractual maturity date and do not take into account the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

Derivative financial instruments (other than those designated in a hedge relationship) and trading portfolio assets and liabilities are included in 'less than 3 months' at their fair value. Liquidity risk on these items is not managed on the basis of remaining maturity since they are not held for settlement according to such maturity and will frequently be settled before remaining maturity at fair value. Derivatives designated in a hedge relationship are included according to their remaining maturity at fair value. Investment securities in equities and mutual funds with no maturity are included in 'over 3 years'.

45. Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities as at December 31, 2020 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	29,601,607	-	-	-	-	29,601,607
Deposits and balances due from banks, net	11,849,873	5,986,785	2,174,216	1,524,487	81	21,535,442
Derivative financial instruments	8,684,340	78,826	65,725	477,578	1,839,927	11,146,396
Investment securities	2,565,223	7,470,294	4,464,989	21,330,084	52,375,394	88,205,984
Loans and advances to customers, net	45,536,144	11,093,093	8,440,699	40,106,869	133,798,897	238,975,702
Investment in associates	-	-	-	-	255,868	255,868
Investment properties	-	-	-	1,643,956	-	1,643,956
Other assets, net	4,765,182	1,223,033	4,064,116	2,781	26,301	10,081,413
Property and equipment, net	-	-	-	-	2,058,575	2,058,575
Intangible assets, net	-	-	-	124,000	7,266,291	7,390,291
Assets held for sale	261,067	-	-	-	-	261,067
Total assets	**103,263,436**	**25,852,031**	**19,209,745**	**65,209,755**	**197,621,334**	**411,156,301**
Liabilities and equity						
Due to banks	6,368,673	565,426	1,265,434	22,538	-	8,222,071
Derivative financial instruments	8,039,739	134,809	49,838	635,122	1,995,540	10,855,048
Deposits from customers	214,726,491	20,459,023	10,728,636	4,204,912	1,276,395	251,395,457
Euro commercial paper	2,623,117	542,438	1,588,038	-	-	4,753,593
Borrowings	2,076,173	7,106,820	3,768,437	22,869,069	29,575,545	65,396,044
Other liabilities	8,143,777	770,102	3,865,773	217,461	930,862	13,927,975
Liabilities related to assets held for sale	4,725	-	-	-	-	4,725
Equity	-	-	-	-	56,601,388	56,601,388
Total liabilities and equity	**241,982,695**	**29,578,618**	**21,266,156**	**27,949,102**	**90,379,730**	**411,156,301**
Balance sheet liquidity gap	**(138,719,259)**	**(3,726,587)**	**(2,056,411)**	**37,260,653**	**107,241,604**	**-**
Off balance sheet						
Financial guarantees and irrevocable commitments	**2,443,780**	**3,043,605**	**4,551,577**	**8,040,363**	**4,778,707**	**22,858,032**
Derivatives held for hedging purpose (notional)	**9,032,488**	**6,323,578**	**4,018,536**	**24,453,297**	**42,435,353**	**86,263,252**

45. Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities as at December 31, 2019 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	23,979,966	925,000	-	-	-	24,904,966
Deposits and balances due from banks, net	13,423,798	4,421,777	3,703,615	1,515,784	-	23,064,974
Derivative financial instruments	5,639,754	26,325	40,874	167,824	914,940	6,789,717
Investment securities (*)	5,788,373	4,270,039	8,786,912	23,997,210	30,600,128	73,442,662
Loans and advances to customers, net (*)	44,052,919	5,186,426	7,112,894	45,611,493	145,869,348	247,833,080
Investment in associates	-	-	-	-	407,768	407,768
Investment properties	-	-	-	1,693,707	-	1,693,707
Other assets, net	6,469,945	1,214,600	8,832,632	91,168	141,863	16,750,208
Property and equipment, net	-	-	-	-	2,197,571	2,197,571
Intangible assets, net (*)	-	-	-	-	7,474,342	7,474,342
Assets held for sale	535,830	-	-	-	-	535,830
Total assets	99,890,585	16,044,167	28,476,927	73,077,186	187,605,960	405,094,825
Liabilities and equity						
Due to banks	4,925,317	109,821	36,730	660,911	-	5,732,779
Derivative financial instruments	5,480,266	13,354	84,380	305,823	1,066,068	6,949,891
Deposits from customers	197,772,261	32,773,977	26,359,616	4,074,804	1,113,124	262,093,782
Euro commercial paper	1,382,071	462,732	217,535	-	-	2,062,338
Borrowings	4,180,133	416,678	3,160,661	9,137,546	34,987,036	51,882,054
Other liabilities	8,556,298	1,188,275	9,018,310	315,229	1,224,682	20,302,794
Liabilities related to assets held for sale	413,395	-	-	-	-	413,395
Equity (*)	-	-	-	-	55,657,792	55,657,792
Total liabilities and equity	222,709,741	34,964,837	38,877,232	14,494,313	94,048,702	405,094,825
Balance sheet liquidity gap	(122,819,156)	(18,920,670)	(10,400,305)	58,582,873	93,557,258	-
Off balance sheet						
Financial guarantees and irrevocable commitments	1,908,054	983,050	2,052,972	12,028,727	6,054,677	23,027,480
Derivatives held for hedging purpose (notional)	12,660,430	3,629,350	5,201,682	22,363,124	53,924,697	97,779,283

(*) restated - refer note 53

45. Liquidity risk framework, measurement and monitoring (continued)

The table below summarises the maturity profile of the Group's financial liabilities as at December 31, 2020 and 2019 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. Derivative financial instruments held for trading are included in "less than 3 months" column at their fair value. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Carrying amount AED'000	Gross outflow AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
As at December 31, 2020							
Due to banks	**8,222,071**	**8,274,312**	**6,382,706**	**567,061**	**1,302,007**	**22,538**	**-**
Derivative financial instruments	**10,855,048**	**10,880,850**	**8,185,336**	**352,784**	**319,806**	**1,146,617**	**876,307**
Deposits from customers	**251,395,457**	**252,369,431**	**215,481,837**	**20,511,295**	**10,814,168**	**4,275,033**	**1,287,098**
Euro commercial paper	**4,753,593**	**4,755,902**	**2,622,271**	**541,740**	**1,591,891**	**-**	**-**
Borrowings	**65,396,044**	**124,858,192**	**2,358,041**	**7,292,992**	**4,150,906**	**23,696,649**	**87,359,604**
Total financial liabilities	**340,622,213**	**401,138,687**	**235,030,191**	**29,265,872**	**18,178,778**	**29,140,837**	**89,523,009**
As at December 31, 2019							
Due to banks	5,732,779	5,821,738	4,954,314	112,545	37,567	717,312	-
Derivative financial instruments	6,949,891	6,582,921	5,457,296	132,010	58,207	497,449	437,959
Deposits from customers	262,093,782	264,472,376	199,405,090	33,060,680	26,846,726	4,028,523	1,131,357
Euro commercial paper	2,062,338	2,077,702	1,394,874	464,209	218,619	-	-
Borrowings	51,882,054	107,122,345	4,536,900	600,768	3,601,391	10,650,433	87,732,853
Total financial liabilities	328,720,844	386,077,082	215,748,474	34,370,212	30,762,510	15,893,717	89,302,169

46. Market risk framework, measurement and management

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

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

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

Market risk arising from trading book

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

Market risk arising from banking book

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

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

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

Risk identification and classification

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

46. Market risk framework, measurement and management (continued)

Management of market risk

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

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

Market risk management is overseen by MRCC and performs the following primary functions:
- establishment of a comprehensive mark-to-market valuation policy framework;
- establishment of a comprehensive market risk policy framework;
- independent measurement, monitoring and control of market risk;
- setting and monitoring of limits; and
- hedge effectiveness methodology.

Risk measurement

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

Statistical risk measures

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

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

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

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

The Group's VaR for the year ended December 31, 2020 is as below:

Daily value at risk (VaR at 99% - 1 day)	**2020** **AED'000**	2019 AED'000
Overall risk	**(21,378)**	(5,136)
Average VaR	**(14,842)**	(4,843)

46. Market risk framework, measurement and management (continued)

Non-statistical risk measures

Non-statistical risk measures, other than stress/sensitivity testing, include independent market valuations to ensure that the Group's valuations are correct and Risk Greeks to ensure that trading is within the risk appetite thresholds. These measures provide granular information of the Group's market risk exposures.

Independent market valuations/Greeks are validated by the market risk function in order to ensure that the market valuations/Greeks are measured correctly. The Group uses first order Risk Greeks to monitor and control market risk on a day to day basis. The interest rate delta and vega and the foreign exchange delta and vega are computed daily and monitored against a limit. The Board has set limits for the delta and the vega within acceptable level of risks in managing the trading book.

Sensitivity analysis

To overcome the VaR limitations mentioned under statistical measure above, the Group also carries out daily stress tests/sensitivity analysis of its portfolio to simulate conditions outside normal confidence intervals in order to analyse potential risk that may arise from extreme market events that are rare but plausible. The results of the stress tests are reported regularly to the Group's ALCO committee for their review.

Interest rate risk - trading book

The following table depicts the sensitivity of fair valuations in the trading book to hypothetical and instantaneous changes in the level of interest rates - with other market risk factors held constant – which would have an impact on the Group's consolidated income statement:

Relative instantaneous rate move shift for all tenors:

	2020		2019	
	+25bps AED'000	**-25bps AED'000**	+25bps AED'000	-25bps AED'000
AED	**(1,390)**	**1,518**	(29,850)	31,783
USD	**6,345**	**(6,725)**	3,059	(4,953)

Interest rate risk – non-trading book

The following table depicts the sensitivity of fair valuations in the non-trading book to hypothetical and instantaneous changes in the level of interest rates - with other market risk factors held constant – which would have an impact on the Group's consolidated income statement:

	2020		2019	
	+25 bps AED'000	**-25 bps AED'000**	+25 bps AED'000	-25 bps AED'000
Sensitivity of net interest income	**74,451**	**(56,398)**	70,293	(62,094)

The sensitivity on the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments.

46. Market risk framework, measurement and management (continued)

Currency risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. The Board of Directors has set limits on delta notional positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. As at December 31, 2020, the Group's net delta notional positions in major currencies are as below:

	Net currency position (short)/long	
	2020	2019
Currency	**AED'000**	AED'000
USD	**27,133,921**	31,792,775
EUR	**154,531**	64,011
GBP	**(5,071)**	1,413
JPY	**(11,331)**	19,621
INR	**197,136**	211,128
SAR	**(2,614,488)**	(4,448,838)
EGP	**630,937**	492,841
AUD	**338**	(52,830)

The following table depicts the sensitivity of fair valuations in the trading and banking book to hypothetical, instantaneous changes in the level of foreign currency exchange rates - with other market risk factors held constant (including the USD-AED currency pair which is pegged) – which would have an impact on the Group's consolidated income statement:

	2020		2019	
	+5%	**-5%**	+5%	-5%
Price shock in percentage	**AED'000**	**AED'000**	AED'000	AED'000
USD-AUD	**(107)**	**107**	(2,578)	5,097
EUR-USD	**(205)**	**6,760**	(6,770)	9,120
GBP -USD	**(248)**	**248**	2,197	(2,147)
USD-JPY	**1,491**	**(1,206)**	103	(122)
USD-INR	**(11,528)**	**14,126**	(11,769)	13,143
USD-EGP	**(29,993)**	**33,154**	(23,384)	25,846
USD-SAR	**76,408**	**(374,930)**	105,725	(508,562)

47. Operational risk management

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business processes and activities carried out by the Group and can expose the Group to potentially large losses, legal suits, regulatory criticism and reputational damage.

The objective of the Group's operational risk management is to manage and control operational risk in a proactive and cost-effective manner within targeted levels of operational risk consistent with a defined risk appetite. ADCB primarily aims at early identification and assessment of operational risks allowing timely mitigation, as well as meaningful management reporting and continuous improvement of the control environment.

During 2020, the Group continued to support alignment of the enhanced Operational Risk Management Framework ('ORMF') across the Group, focusing on the consistency in application of the core tools such as risk and control self-assessment (RCSAs), key risk indicators (KRIs) and control testing and timeliness of material incident reporting. Enhanced operational risk management tools were developed to support operational risk treatment approaches and assessment of operational risk in new/material change initiatives

To mitigate increased operational risk resulting from Covid-19 outbreak, a cross-functional team led by Group Operational Risk has been established and reviewed over 190 Covid-19 induced changes in business processes to ensure they remained within the Bank's risk appetite.

The enhanced ORMF shall enable an end-to-end view of non-financial risks, facilitating focus on the risks that are critical to achieving the Group's strategic objectives and associated controls. It provides a platform to drive forward-looking risk awareness and assist management focus. It also helps the organisation understand the level of risk it is willing to accept.

Three lines of defence

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

The three lines of defence are summarised below:

The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.

The second line of defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence on effective risk management.

The third line of defence is the Group's Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Group's risk management framework and control governance process.

47. Operational risk management (continued)

Risk culture and awareness

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

A 'No surprise' and 'No blame' culture cascades from senior management creating awareness throughout ADCB of the need to manage operational risk.

Governance and structure

The ORMF defines the overall approach through which the Board and senior management establish and make decisions about the Bank's operational risk strategy and the supporting governance structure.

The ORMF has been codified in policies and supplemented with detailed standard operating procedures and guidelines. Policies describe the Group's approach in identifying, assessing, monitoring and controlling operational risk and give guidance on mitigating action to be taken when weaknesses are identified.

The Group has a dedicated Group Operational Risk Management function. It is responsible for developing strategies to identify, assess, monitor and control operational risk and operational risk management tools, codifying risk related policies and procedures, designing and implementing the Bank's risk assessment methodology and risk reporting system, challenging the activities and behaviours giving rise to material operational risks. It supports the Group CRO and the Operational Risk Working Group which meets bi-monthly to discuss key risk issues and review implementation of the ORMF. The Group Operational Risk Management function is also responsible for preparation of operational risk reporting at Group level including reports for consideration by the Operational Risk Working Group and BREC. A formal governance structure provides oversight of the function's management.

The operating model of interaction between the first and second line of defence is facilitated through a group of full time and/or part time business risk and control champions.

Key risk management process

All managers throughout the Group are responsible for managing their areas of responsibility within the Board approved risk appetite. This includes maintaining an acceptable level of internal controls commensurate with the scale and nature of operations and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing tools for managing operational risk and associated reporting.

Operational RCSAs provide a structured approach for businesses to develop consistent risk profiles by identifying and assessing risks and relevant controls.

Control testing is a periodic assessment of operating effectiveness of key controls, performed by the business and reviewed and challenged by the second Line of defence. Control testing results inform the residual risk assessment of the risks included in the RCSA and resulting corrective action drive continuous improvement in the Bank's control environment.

Ongoing tracking of KRIs by business/support functions allows the Bank to respond promptly to any changes in risk and control environment of the organization, especially were KRI values are approaching the appetite levels as defined by management.

47. Operational risk management (continued)

Key risk management process (continued)

Early reporting of operational risk events is fundamental to prompt management action in limiting the impact of an event that has occurred and preventing similar events in future. All employees are responsible for reporting and recording operational risk events on detection. These also include events with no financial impact. Material risk events are reported and escalated to the appropriate governance structures on a monthly and ad-hoc basis in line with their materiality.

Operational risk actions are addressing issues identified through any operational risk process and reflect the Department Head's or Group Head's response to the level of underlying residual risk taking into account objectives, risk appetite and resources available. Business and functional management monitor the progress of documented action plans to address any shortcomings.

Business continuity management

The safety of employees and the ability to recover from a crisis in a timely fashion are of utmost importance to ADCB. ADCB recognizes the importance business continuity plays in business and, of its obligations to customers and stakeholders.

ADCB's business continuity framework and programme for the UAE is certified ISO22301:2012 and has been designed to ensure that the Bank can continue to achieve its business objectives in the face of an unexpected disruptive event. The same approach is used across the ADCB Group.

Business continuity framework requires that the business continuity plan can only be set post business impact analysis which is formally reviewed by business continuity management departments for quality and business continuity framework compliance. The business impact analysis and business continuity plan are formally 'signed-off' by the business head; the content is owned and maintained locally. Staff awareness is maintained by the Group at a centralised level. Local awareness is maintained by business continuity champions in the business unit.

ADCB undertakes a rolling two year exercise programme ensuring the validity of its business continuity strategies. Issues arising from these exercises are reported to management and support continuous improvement of business continuity programme.

ADCB has a group wide crisis management framework to ensure that response to disruptive events is coordinated and managed. The crisis management framework builds on business as usual procedures with defined escalation and management response plans.

The Bank executed its pandemic response plan from January 2020 in response to the coronavirus outbreak and the Bank continues to adopt an abundance of caution approach ensuring the safety of its staff and customers. The Bank has enabled a distributed work approach across the ADCB Group and has maintained a resilient service throughout.

48. Trust activities

As at December 31, 2020, the net asset value of the funds under the management of the Group amounted to AED 3,066,896 thousand (December 31, 2019 – AED 2,981,303 thousand).

49. Subsidiaries

The following is the list of subsidiaries of the Bank:

Name of subsidiary	Effective 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 (2)	100%	2005	UAE	Financial investments.
Abu Dhabi Commercial Investment Services LLC (2)	100%	2005	UAE	Financial investments.
Kinetic Infrastructure Development LLC	100%	2006	UAE	Financial investments.
Abu Dhabi Commercial Property Development LLC (1)	100%	2006	UAE	Property development.
Abu Dhabi Commercial Engineering Services LLC	100%	2007	UAE	Engineering services.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
ADCB Markets (Cayman) Limited	100%	2008	Cayman Islands	Treasury related activities.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of Man	Trust activities.
Abu Dhabi Commercial Bank (UK Representative Office) Limited (2)(3)	100%	2008	United Kingdom	UK representative office and process service agent.
ITMAM Services FZ LLC	100%	2010	UAE	Transaction processing and back office support for the Group.
AD NAC Ventures WLL	99.75%	2012	Bahrain	Trust activities.
ITMAM Services LLC	100%	2013	UAE	Transaction processing and back office support for the Group.
Omicron Capital (2)	100%	2014	Cayman Islands	Treasury financing activities.
ADCB Structuring I (Cayman) Limited (2)	100%	2016	Cayman Islands	Treasury financing activities.
Common Services SARL (2)	100%	2018	Luxembourg	Acquisition, holding, management and disposal of participations and interests.
ADCB Asset Management Limited	100%	2018	UAE	Wealth management and private banking.
Al Wifaq Finance Company PrJSC	90.08%	2006	UAE	Shari'ah compliant Islamic finance products and services.
Al Wifaq Properties LLC (2)	90.28%	2015	UAE	Property management services.
Union Brokerage LLC (2)	100%	2002	UAE	Agent in trading of financial instruments and stocks.
Injaz Marketing Management LLC (2)	99%	2007	UAE	Marketing management services.
Abu Dhabi Commercial Bank – Egypt (formerly known as Union National Bank – Egypt)	99.78%	1981	Egypt	Commercial banking services.
Al Hilal Bank PJSC	100%	2007	UAE	Islamic banking activities.
Al Hilal Islamic Bank JSC	100%	2010	Kazakhstan	Islamic banking activities.
Al Hilal Leasing LLP	100%	2011	Kazakhstan	Shari'ah compliant leasing operations.
Al Hilal Auto LLC (2)(3)	100%	2009	UAE	Shari'ah compliant trading in new and used cars.
AHB Sukuk Company Limited	Controlling interest	2011	Cayman Islands	Treasury financing activities.

(1) dormant (2) under liquidation (3) discontinued operations

During the year, Al Hilal Bank PJSC sold the entire shareholding in Al Hilal Takaful PSC.

The Group does not have any subsidiary with material non-controlling interests.

50. Capital adequacy ratio and capital management

Capital management process

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the CBUAE;
- to safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the CBUAE.

CBUAE issued an update on Capital Adequacy Standards in April 2020 vide notice number 1733/2020 replacing the earlier issued standards. The updated standards include new requirements on internal and external review, additional guidelines on credit, market and operational risk and details for Pillar 2 requirements. The regulations ensure compliance with Basel III Capital Standards set out by the Basel Committee on Banking Supervision (BCBS).

For credit and market risk, CBUAE has issued guidelines for implementation of standardised approach and banks are required to comply and report under Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the CBUAE has given banks the option to use the Basic Indicators approach or the standardised approach and the Group has chosen to use the standardised approach.

The Bank currently uses the approach defined below for Pillar 1 reporting:

Credit risk: Standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: For the regulatory market risk capital requirement, the Group uses the standardised approach.

Operational risk: Basel III includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Group has adopted the standardised approach in determining the operational risk capital requirements.

The Group also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Group of its risk profile, approaches to assess and measure various material risks, capital planning under regular and stress scenarios.

The Group's capital management is driven by long/short term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Group seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

50. Capital adequacy and capital management (continued)

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 AT1 capital (paragraph 55 of Basel III Accord).

Tier 2 capital includes collective provisions per Basel guidelines and CBUAE rules, perpetual equity instruments issued by the Bank or its subsidiaries and not included in Tier 1 and their premium and instruments eligible for inclusion in Tier 2 capital such as hybrid (debt/equity) capital instruments and subordinated term loan.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital and the Group's business strategy, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by the Bank's risk & credit and finance functions and is subject to review by the ALCO as appropriate.

50. Capital adequacy and capital management (continued)

Capital adequacy ratio

The ratio calculated in accordance with Basel III guidelines is as follows:

	As at December 31 2020 AED'000	As at December 31 2019 restated (*) AED'000
Common equity tier 1 (CET1) capital		
Share capital (Note 22)	**6,957,379**	6,957,379
Share premium	**17,878,882**	17,878,882
Other reserves (Note 23)	**9,051,224**	8,649,013
Retained earnings	**15,783,861**	15,403,049
Non-controlling interests	**4,019**	19,405
Regulatory deductions and adjustments		
Intangible assets, net (Note 16)	**(7,390,291)**	(7,474,342)
Cash flow hedge reserve (Note 23)	**(33,464)**	10,227
Employee's incentive plan shares, net (Note 23)	**(26,869)**	(30,105)
Revaluation reserve of investments designated at FVTOCI (Note 23)	**393,536**	277,328
Total CET1 capital	**42,618,277**	41,690,836
Additional tier 1 (AT1) capital		
Capital notes (Note 26)	**6,000,000**	6,000,000
Total AT1 capital	**6,000,000**	6,000,000
Total tier 1 capital	**48,618,277**	47,690,836
Tier 2 capital		
Eligible general provision	**3,429,788**	3,627,019
Subordinated notes (Note 20)	**719,614**	1,226,060
Total tier 2 capital	**4,149,402**	4,853,079
Total regulatory capital	**52,767,679**	52,543,915
Risk-weighted assets		
Credit risk	**274,383,003**	290,161,492
Market risk	**8,822,001**	8,170,213
Operational risk	**23,219,072**	24,027,523
Total risk-weighted assets	**306,424,076**	322,359,228
CET1 ratio	**13.91%**	12.93%
AT1 ratio	**1.96%**	1.86%
Tier 1 ratio	**15.87%**	14.79%
Tier 2 ratio	**1.35%**	1.51%
Capital adequacy ratio	**17.22%**	16.30%

(*) restated to reflect the effect of IFRS 3 – Business combinations adjustments (Note 53)

The above capital adequacy ratios have been calculated in line with Basel guidelines and in accordance with IAS 10 'Events after the Reporting Period', which does not allow proposed dividend to be recognized as a liability. On January 17, 2018, CBUAE issued guidelines requiring banks to deduct proposed dividends from retained earnings while calculating the capital adequacy ratio. In line with this regulation, the Bank's capital adequacy ratios after deducting the proposed dividends will be as below:

	2020	2019
CET1 ratio	**13.30%**	12.11%
Tier 1 ratio	**15.25%**	13.97%
Capital adequacy ratio	**16.61%**	15.48%

50. Capital adequacy and capital management (continued)

Capital adequacy ratio (continued)

In December 2010 (revised in June 2011), the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banking organisations to hold capital in excess of regulatory minimums. In November 2020, CBUAE issued an update to the Capital Adequacy Standards (notice number 1733/2020) published earlier in April 2020 vide notice number CBUAE/BSD/N/2020/4980. Under the revised notice, banks are expected to implement requirements of the capital standards in a phased manner which will allow the banks to absorb the new regulations without over burdening them during the Covid-19 pandemic.

To achieve broader macro-prudential goal of protecting the banking sector from the periods of excess aggregate credit growth and in addition to the capital conservation buffer (CCB) requirement, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCyB requirement will vary between 0% - 2.5% of risk weighted assets and will be communicated by CBUAE with adequate notice period. Further, to reduce risks related to the failure of domestic systemically relevant institutions, CBUAE has introduced domestic systematically important banks (D-SIB) buffer of 0.5% for ADCB.

As at December 31, 2020, the Bank is required to meet the following minimum capital ratios:

Capital ratios	
CET1 including buffers	
- CET1	**7.00%**
- CCB	**2.50%**
- D-SIB buffer	**0.50%**
CET1 including buffers	**10.00%**
Tier 1	**11.50%**
Minimum capital requirement	**13.50%**

CBUAE has issued a notice CBUAE\BSD\N\2020\1479 dated March 18, 2020, providing guidelines for Targeted Economic Support Scheme (TESS). The notice aims to contain the repercussions of Covid-19 pandemic in the UAE. TESS guidelines are immediately effective and will last for one year starting from March 15, 2020. Banks are allowed the following relief under the TESS:

(a) Banks can tap into their CCB up to a maximum of 60% and D-SIB buffer up to 100% without supervisory consequences.

(b) CBUAE allows banks to apply prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of expected volatility due to the Covid-19 crisis.

Common equity tier 1 (CET1) capital resources

(a) Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of treasury shares. These instruments confer a share of ownership in the Bank, and carry no obligations.

50. Capital adequacy and capital management (continued)

Common equity tier 1 (CET1) capital resources (continued)

(b) Statutory and Legal reserves:

(i) Statutory reserve: As required by Article 239 of the UAE Federal Law No. (2) of 2015, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly, an amount of AED 201,923 thousand has been transferred to statutory reserve during the year (December 31, 2019 – AED 478,968 thousand). The statutory reserve is not available for distribution.

(ii) Legal reserve: In accordance with the Article 82 of Union Law No. 10 of 1980 and the Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly, an amount of AED 201,923 thousand has been transferred to legal reserve during the year (December 31, 2019 – AED 478,968 thousand). The legal reserve is not available for distribution.

(c) General and Contingency reserves:

(i) General reserve: In accordance with the Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

(ii) Contingency reserve: The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

(iii) Retained earnings which represent the cumulative profits not distributed to shareholders, and other eligible reserves.

(d) Regulatory deductions and adjustments:

(i) Goodwill and other intangible assets.

(ii) Cash flow hedge reserve: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. However, it is limited to 45% if the balance is positive.

(iii) Employees' incentive plan shares: The Bank grants equity-settled share-based payments to employees. These shares are acquired by the Bank for its employees and are deducted from capital.

(iv) Revaluation reserve of investments designated at FVTOCI: This includes the cumulative net change in the fair value of investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive.

Additional tier 1 (AT1) capital resources

(a) Capital notes: In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to the ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"). The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank.

50. Capital adequacy and capital management (continued)

Additional tier 1 (AT1) capital resources (continued)

Pursuant to merger, the Bank assumed erstwhile UNB's Tier I regulatory capital notes with a principal amount of AED 2,000,000 thousand. The terms and conditions applicable to these notes are similar to the Notes issued by ADCB.

Tier 2 capital resources

(a) Collective impairment on loans and advances limited to 1.25% of credit risk-weighted assets.

(b) Eligible subordinated notes (Note 20).

51. Social contributions

The Group made the following social contributions during the year:

	2020 AED'000	2019 AED'000
Donations	**15,288**	2,132
Sponsorships	**4,045**	13,390
Total social contributions	**19,333**	**15,522**

52. Legal proceedings

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial information, if disposed unfavourably.

53. Business combinations

Merger with Union National Bank PJSC - On May 1, 2019, Union National Bank PJSC (or "UNB") merged with Abu Dhabi Commercial Bank PJSC in a stock transaction. UNB was a banking institution headquartered in Abu Dhabi with operations in UAE, Egypt, Kuwait, Qatar and China. Under the terms of the agreement, shareholders of UNB received 0.5966 ordinary shares of ADCB for each ordinary share of UNB. ADCB issued 1,641,501,087 ordinary shares that had a total fair value of AED 16,218,031 thousand based on the closing market price of AED 9.88 per share on April 30, 2019. UNB shares were delisted from Abu Dhabi Securities Exchange subsequent to the merger.

Acquisition of Al Hilal Bank PJSC - On May 1, 2019, ADCB and UNB as a merged entity completed its 100% acquisition of Al Hilal Bank PJSC (or "AHB") at a consideration of AED 1,000,000 thousand. AHB is a banking institution headquartered in Abu Dhabi with operations in UAE and Kazakhstan.

The merger and acquisition constituted business combination under common control. The Group sought and received fairness opinions from two investment banks of international repute, who opined that the aforementioned exchange ratio for merger with UNB and consideration for acquisition of AHB are fair, from a financial point of view, to the shareholders of the banks.

The merger and acquisition has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair value on the acquisition date. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and may require adjustments, which can be revisited for up to a year following the merger and acquisition.

53. Business combinations (continued)

Purchase consideration and net identifiable assets acquired and liabilities assumed

The purchase consideration (also referred to as "purchase price") of the merger and the acquisition have been allocated to the assets acquired and liabilities assumed using their fair values at the acquisition date. The computation of the purchase consideration and its allocation to the net assets of UNB and AHB based on their respective fair values as of May 1, 2019 and the resulting goodwill is presented below.

(in AED 000, except per share amount)	UNB	AHB
Purchase consideration		
Union National Bank PJSC ordinary shares ('000) (i)	2,751,427	
Exchange ratio (ii)	0.5966	
ADCB ordinary shares issued to UNB shareholders ('000) (i)*(ii)	1,641,501	
April 30, 2019 closing price of ADCB ordinary share	AED 9.88	
	16,218,031	
117,647,058 ADCB ordinary shares issued to AHB shareholder at a conversion price of AED 8.50 per share		1,000,000
Total purchase consideration (a)	**16,218,031**	**1,000,000**
Assets acquired and liabilities assumed		
Assets		
Cash and balances with central banks	9,260,404	3,359,142
Deposits and balances due from banks	2,253,640	3,174,981
Derivative financial instruments	213,240	5,198
Investment securities	17,147,692	3,303,391
Loans and advances to customers	63,994,388	18,434,461
Investment in associates	103,969	93,886
Investment properties	1,119,449	61,350
Other assets	1,709,566	503,518
Property and equipment	538,777	549,590
Intangible assets	562,000	223,000
Assets held for sale	-	257,899
Total assets (b)	**96,903,125**	**29,966,416**
Liabilities		
Due to banks	3,827,597	244,979
Derivative financial instruments	153,121	34,980
Deposits from customers	72,245,927	23,055,240
Borrowings	5,146,658	3,005,769
Other liabilities	3,181,994	1,321,601
Liabilities related to assets held for sale	-	316,930
	84,555,297	**27,979,499**
Tier I capital notes	2,000,000	1,836,500
Non-controlling interests	14,931	-
Total liabilities (c)	**86,570,228**	**29,815,999**
Total identifiable net assets at fair value (d) = (b) – (c)	**10,332,897**	**150,417**
Goodwill arising on business combinations (a) – (d)	**5,885,134**	**849,583**

The net assets recognised in the consolidated financial statements for the year ended December 31, 2019 were based on a provisional assessment of their fair value while the Group continued its valuation exercise for loans and advances to customers, specifically pertaining to retail loans acquired from UNB and AHB. The valuation exercise was not completed by the date when these financial statements were approved for issue by the Board of Directors.

53. Business combinations (continued)

Purchase consideration and net identifiable assets acquired and liabilities assumed (continued)

During the first quarter of 2020, the valuation exercise was completed and the acquisition date fair value of loans and advances to customers, investment securities and non-controlling interests were changed from their provisional amounts. As a result, there was an increase in goodwill by AED 2,141,845 thousand over the provisional amount. The goodwill is attributable mainly to the synergies expected to be achieved from integration of UNB and AHB into the Group.

Restatement of the statement of financial position as at December 31, 2019

The 2019 comparative information has been restated to reflect the adjustments to the provisional amounts, as stated above.

	As at December 31 2019 (as previously reported) AED'000	Restatement due to IFRS 3 adjustments AED'000	As at December 31 2019 (restated) AED'000
Investment securities	73,440,113	2,549	73,442,662
Loans and advances to customers, net	250,017,326	(2,184,246)	247,833,080
Intangible assets, net	5,332,497	2,141,845	7,474,342
Non-controlling interests	59,257	(39,852)	19,405

Accounting policy choice for non-controlling interests

The Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Purchase consideration - cash inflow

	AED'000
Cash and cash equivalent acquired	**11,037,392**
Purchase consideration paid in cash	-
Net cash inflow – investing activities	**11,037,392**

Impact of business combinations on Group's consolidated income statement

If the aforesaid business combinations had occurred on January 1, 2019, the Group's total operating income and profit before tax from continuing operations would be AED 13,211,961 thousand and AED 5,345,037 thousand respectively for the year ended December 31, 2019.

Business combination related costs

The Group incurred integration and transaction costs of AED 153,126 thousand (2019: AED 294,321 thousand) during the year. These costs have been included in 'operating expenses' in the consolidated income statement.