Abu Dhabi Commercial Bank PJSC

Consolidated financial statements for the year ended December 31, 2019

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

Table of contents

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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, Abu Dhabi (the "Bank") which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matters (continued)

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

The financial statement risk (continued)

Fair values were determined using various valuation methodologies and techniques, which were applied to different assets, liabilities and contingent liabilities. Certain calculations were based on substantial management judgements and complex valuation models that required specific customer or market information, significant unobservable inputs and assumptions, especially with regard to the choice of the valuation method to be used and the inputs to be considered, which depend on current market environments and estimates over future developments. The Bank prepared its own assessments and, for certain assets, used external appraisals to determine the fair values of assets and liabilities acquired.

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

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

How the matter was addressed in the audit

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

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI COMMERCIAL BANK PJSC (continued)

Key audit matters (continued)

Estimation uncertainty with respect to expected credit losses for loans and advances to customers
The financial statement risk
As described in Notes 10 and 42 to the consolidated financial statements, the Bank had loans and advances of AED 250 billion as at 31 December 2019 representing 61.7% of total assets. The determination of the Bank's expected credit losses for loans and advances to customers measured at amortised cost is considered a key audit matter given the magnitude of the account balance and as it is a material and complex estimate requiring significant management judgement in the evaluation of the credit quality and the estimation of inherent credit losses in the portfolio. The financial statement risk arises from several aspects requiring substantial judgement of management, such as the estimation of expected future cash flows, the determination of significant increases in credit risk (SICR) and credit-impairment status (default), the use of different modelling techniques and assumptions as well as consideration of post model adjustments. In calculating expected credit losses, the Bank considered credit quality indicators for each loan and portfolios, stratifies loans and advances by risk grades and estimates losses for each loan based upon their nature and risk profile. For further information on the accounting policies relating to impairment of loans and advances as well as the Bank's management of credit risk refer to Note 3.8 and Note 42 to the consolidated financial statements.
How the matter was addressed in the audit
We established an audit approach which includes both testing the design and operating effectiveness of internal controls over the determination of expected credit losses and risk-based substantive audit procedures. Our procedures over internal controls focused on the governance over the process controls around the ECL methodology, completeness and accuracy of loan data used in the expected loss models, management review of outcomes, management validation and approval processes, the assignment of borrowers' risk classification, consistency of application of accounting policies and the process for calculating individual allowances. The primary substantive procedures which we performed to address this key audit matter included, but were not limited to, the following: • For a risk-based sample of individually assessed loans, we performed a credit review, assessed the appropriateness of information for evaluating the credit-worthiness and staging classification of individual borrowers and challenged the assumptions underlying the expected credit loss allowance calculations, such as estimated future cash flows, collateral valuations and estimates of recovery as well as considered the consistency of the Bank's application of its impairment policy. Further, we evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for loan impairment allowances; • For loans tested collectively, we evaluated controls over the modelling process, including model monitoring model outputs and approval. With the involvement of our modelling specialists, we tested the mathematical accuracy and computation of the expected credit losses by re-performing or independently calculating elements of the expected credit losses based on relevant source data and methodology documents. We challenged key assumptions and the expected credit loss policy. We evaluated key assumptions such as the thresholds used to determine SICR and forward looking and macroeconomic information and the weighting of each economic scenario; • With the support of our credit risk and modelling specialists, we evaluated the reasonableness of post model adjustments and management overlays and challenged their rationale; • We tested, utilising our internal IT specialists, the IT application used in the credit impairment process and verified the integrity of data used as input to the models including the transfer of data between source systems and the impairment models. We evaluated system-based and manual controls over the recognition and measurement of impairment allowances.

Key audit matters (continued)

Risk of inappropriate access or changes to information technology systems

The financial statement risk

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

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

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

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

How the matter was addressed in the audit

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

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

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI COMMERCIAL BANK PJSC (continued)

Other information

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

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

When we read the annual report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI COMMERCIAL BANK PJSC (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities of the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

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

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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 (continued)

- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and
- Note 50 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2019.

Further, as required by the Decree of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to Auditing the Financial Statements of Subject Entities, we report that, based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Bank has not complied, in all material respects, with any of the provisions of the following laws, regulations and circulars, which would materially affect its activities or its consolidated financial statements as at 31 December 2019:

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

Further, as required by the UAE Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

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

Consolidated statement of financial position
As at December 31, 2019

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

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

Eissa Al Suwaidi	**Ala'a Eraiqat**	**Deepak Khullar**
Chairman	*Group Chief Executive Officer*	*Group Chief Financial Officer*

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

Consolidated income statement
For the year ended December 31, 2019

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

(*) Refer Note 3.1 for basis of preparation

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

Consolidated statement of comprehensive income

For the year ended December 31, 2019

	2019(*) AED'000	2018 AED'000	2019 USD'000
Profit for the year	**4,792,487**	4,839,854	**1,304,788**
Items that may be re-classified subsequently to the consolidated income statement			
Exchange difference arising on translation of foreign operations (Note 22)	**32,889**	(21,054)	**8,954**
Net movement in cash flow hedge reserve (Note 22)	**171,505**	41,592	**46,693**
Net movement in revaluation reserve of debt instruments designated at FVTOCI (Note 22)	**1,277,703**	(726,006)	**347,864**
	1,482,097	(705,468)	**403,511**
Items that may not be re-classified subsequently to the consolidated income statement			
Net movement in revaluation reserve of equity instruments designated at FVTOCI (Note 22)	**(50,616)**	(92,693)	**(13,781)**
Actuarial gains on defined benefit obligation (Note 20)	**16,773**	13,157	**4,567**
	(33,843)	(79,536)	**(9,214)**
Other comprehensive income/(loss) for the year	**1,448,254**	(785,004)	**394,297**
Total comprehensive income for the year	**6,240,741**	4,054,850	**1,699,085**
Attributable to:			
Equity holders of the Bank	**6,235,518**	4,054,850	**1,697,663**
Non-controlling interests	**5,223**	-	**1,422**
Total comprehensive income for the year	**6,240,741**	4,054,850	**1,699,085**

(*) Refer Note 3.1 for basis of preparation

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

Consolidated statement of changes in equity
For the year ended December 31, 2019

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital notes AED'000	Equity attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total equity AED'000
As at January 1, 2019	**5,198,231**	**2,419,999**	**6,859,271**	**14,328,042**	**4,000,000**	**32,805,543**	**-**	**32,805,543**
Issue of ordinary shares as consideration for business combinations (Note 21)	**1,759,148**	**15,458,883**	**-**	**-**	**-**	**17,218,031**	**-**	**17,218,031**
Addition on business combinations (Note 52)	**-**	**-**	**-**	**-**	**3,836,500**	**3,836,500**	**54,783**	**3,891,283**
Profit for the year	**-**	**-**	**-**	**4,789,686**	**-**	**4,789,686**	**2,801**	**4,792,487**
Other comprehensive income for the year (Note 22)	**-**	**-**	**1,429,059**	**16,773**	**-**	**1,445,832**	**2,422**	**1,448,254**
Transfer to statutory and legal reserve (Note 49)	**-**	**-**	**957,936**	**(957,936)**	**-**	**-**	**-**	**-**
Other movements (Note 22)	**-**	**-**	**11,653**	**18**	**-**	**11,671**	**-**	**11,671**
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 22)	**-**	**-**	**-**	**23,853**	**-**	**23,853**	**-**	**23,853**
Adjustment arising from changes in non-controlling interests	**-**	**-**	**-**	**13**	**-**	**13**	**(749)**	**(736)**
Repayment of Tier 1 capital notes (Note 25)	**-**	**-**	**-**	**-**	**(1,836,500)**	**(1,836,500)**	**-**	**(1,836,500)**
Dividends paid to equity holders of the Bank (Note 21)	**-**	**-**	**-**	**(2,391,186)**	**-**	**(2,391,186)**	**-**	**(2,391,186)**
Capital notes coupon paid (Note 33)	**-**	**-**	**-**	**(265,056)**	**-**	**(265,056)**	**-**	**(265,056)**
As at December 31, 2019 (*)	**6,957,379**	**17,878,882**	**9,257,919**	**15,544,207**	**6,000,000**	**55,638,387**	**59,257**	**55,697,644**
As at January 1, 2018 (as previously reported)	5,198,231	2,419,999	7,484,927	13,341,783	4,000,000	32,444,940	-	32,444,940
Effect of change in accounting policy for IFRS 9	-	-	149,349	(1,510,228)	-	(1,360,879)	-	(1,360,879)
As at January 1, 2018 (restated)	5,198,231	2,419,999	7,634,276	11,831,555	4,000,000	31,084,061	-	31,084,061
Profit for the year	-	-	-	4,839,854	-	4,839,854	-	4,839,854
Other comprehensive loss for the year (Note 22)	-	-	(798,161)	13,157	-	(785,004)	-	(785,004)
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 22)	-	-	-	1,588	-	1,588	-	1,588
Other movements (Note 22)	-	-	23,156	(66)	-	23,090	-	23,090
Dividends paid to equity holders of the Bank	-	-	-	(2,183,257)	-	(2,183,257)	-	(2,183,257)
Capital notes coupon paid (Note 33)	-	-	-	(174,789)	-	(174,789)	-	(174,789)
As at December 31, 2018 (*)	5,198,231	2,419,999	6,859,271	14,328,042	4,000,000	32,805,543	-	32,805,543

(*) Refer Note 3.1 for basis of preparation

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

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

Consolidated statement of cash flows
For the year ended December 31, 2019

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

(*) Refer Note 3.1 for basis of preparation

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

1. General information

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

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

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

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

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

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

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

The Group has also applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2019. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

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

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

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

Standards and Interpretations in issue but not yet effective

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

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Amendments to references to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
Amendment to IFRS 3 regarding the definition of business.	January 1, 2020
Amendments to IAS 1 and IAS 8 regarding the definition of materiality.	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform	January 1, 2020
IFRS 17 Insurance Contracts which requires insurance liabilities to be measured at a current 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, 2022.	January 1, 2022
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

Update on prospective changes in reference rates (Ibor)

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

3. Summary of significant accounting policies

3.1 Basis of preparation

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

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

Certain disclosure notes have been rearranged from the Group's prior year consolidated financial statements to conform to the current year's presentation.

3.2 Measurement

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

3.3 Functional and presentation currency

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

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

3.4 Use of estimates and judgements

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

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

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

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

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

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

Profit or loss and each component of other comprehensive income are attributed to owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and non-controlling interests even if this results in non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to align their accounting policies with the Bank's accounting policies.

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation.

Changes in the Bank's ownership interests in existing subsidiaries

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

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Changes in the Bank's ownership interests in existing subsidiaries (continued)

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

Special Purpose Entities

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

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

Funds under management

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

Investment in associates

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

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

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

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

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Investment in associates (continued)

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

Joint arrangements

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

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

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

Non-current assets held for sale

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

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

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

3. Summary of significant accounting policies (continued)

3.6 Business combination under common control

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.6 Business combination under common control (continued)

Impairment testing of goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (Note 52) less accumulated impairment losses, if any.

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

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

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

3.7 Change in accounting policy

General impact of application of IFRS 16 Leases

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

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

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

Impact on Lessee Accounting

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

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

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

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

3. Summary of significant accounting policies (continued)

3.7 Change in accounting policy (continued)

Impact on Lessee Accounting (continued)

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

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

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

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

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

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

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

Impact on Lessor Accounting

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

3. Summary of significant accounting policies (continued)

3.7 Change in accounting policy (continued)

Accounting policies for accounting of leases till December 31, 2018

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

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

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

Accounting policies introduced on adoption of IFRS 16

The Group as lessee

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

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

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

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

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

The Group as lessor

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

3. 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)

(a) Debt instruments at amortised cost or at FVTOCI (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 results in reclassifying the Group's financial assets. Changes in contractual cash flows are discussed under the accounting policy on modification and derecognition of financial assets.

(d) Impairment

The Group recognises allowances for expected credit loss (ECLs) on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- deposits and balances due from banks;
- reverse-repo placements;
- debt investment securities;
- loans and advances to customers;
- loan commitments issued; and
- financial guarantee contracts issued.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

(d) Impairment (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 42 for more details on measurement of ECL.

(e) Credit-impaired financial assets

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

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

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

(e) Credit-impaired financial assets (continued)

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

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

(f) Purchased or originated credit-impaired financial assets

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

(g) Definition of default

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

(h) Significant increase in credit risk (SICR)

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. Refer note 42 for more details about forward looking information and criteria used to determine significant increase in credit risk.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both deterioration in internal/external ratings as well as qualitative assessment. For further details on SICR refer to note 42.

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

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

(i) Modification and derecognition of financial assets

Modification of financial assets

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

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

(i) Modification and derecognition of financial assets (continued)

Modification of financial assets (continued)

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial assets (continued)

(i) Modification and derecognition of financial assets (continued)

Derecognition of financial assets

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

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

(j) Presentation of allowance for ECL

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

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

Financial liabilities

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

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

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

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial liabilities (continued)

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

Derecognition of financial liabilities

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

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors such as, currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred is recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised using EIR method over the remaining term of the modified liability.

3.9 Foreign currencies

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

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

3. Summary of significant accounting policies (continued)

3.9 Foreign currencies (continued)

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

(a) assets and liabilities at the rate of exchange prevailing at the statement of financial position date;
(b) income and expenses at the average rates of exchange for the reporting period; and
(c) all resulting exchange differences arising from the retranslation of opening assets and liabilities and arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end are recognised in other comprehensive income and accumulated in equity under 'foreign currency translation reserve' (Note 22).

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

3.10 Offsetting

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

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

3.11 Sale and repurchase agreements

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

3.12 Securities borrowing and lending

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

3. Summary of significant accounting policies (continued)

3.13 Cash and cash equivalents

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

3.14 Amortised cost measurement

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

3.15 Fair value measurement

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.15 Fair value measurement (continued)

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

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

Different levels of fair value hierarchy based on the inputs to valuation techniques are discussed in Note 40. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3.16 Derivatives

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

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

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

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under 'net gain on dealing in derivatives' (Note 29).

3.17 Hedge accounting

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

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

3. Summary of significant accounting policies (continued)

3.17 Hedge accounting (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. Any adjustment up to that point to the carrying value of a hedged item, for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity or derecognition.

Cash flow hedges

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

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

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

Net investment hedge

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

Hedge effectiveness testing

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

3. Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Hedge effectiveness testing (continued)

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

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

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in "net gains from dealing in derivatives" under net trading income (Note 29).

3.18 Treasury shares and contracts on own shares

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

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

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

3.19 Financial guarantees

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

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

3.20 Acceptances

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

3. Summary of significant accounting policies (continued)

3.21 Collateral repossessed

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

3.22 Investment properties

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

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

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

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

3.23 Property and equipment

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

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

Estimated useful lives are as follows:

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

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

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

3. Summary of significant accounting policies (continued)

3.24 Capital work in progress

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

3.25 Intangible assets

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

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

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

3.26 Borrowing costs

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

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

3.27 Impairment of non-financial assets

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

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

3. Summary of significant accounting policies (continued)

3.27 Impairment of non-financial assets (continued)

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

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

3.28 Employee benefits

(i) Employees' end of service benefits

(a) Defined benefit plan

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

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

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

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

(b) Defined contribution plan

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

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

3. Summary of significant accounting policies (continued)

3.28 Employee benefits (continued)

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(iii) Short-term employee benefits

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

(iv) Employees' incentive plan shares

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

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

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

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 33).

3.29 Provisions and contingent liabilities

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

3. Summary of significant accounting policies (continued)

3.29 Provisions and contingent liabilities (continued)

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

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

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

3.30 Segment reporting

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

Refer to note 38 on Business Segment reporting.

3.31 Taxation

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

3.32 Revenue and expense recognition

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

(i) Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated at fair value through profit or loss (FVPTL) are recognised in 'net interest income' as 'interest income' and 'interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments classified as held for trading or those measured or designated at FVTPL is recognised in 'Net gains from trading securities' under 'Net trading income'.

3. Summary of significant accounting policies (continued)

3.32 Revenue and expense recognition (continued)

(i) Interest income and expense (continued)

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

(ii) Dividend income

Dividend income is recognised on the ex-dividend date when the Group's right to receive the payment is established.

(iii) Fee and commission income

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

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

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

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

(b) Fee income from providing transaction services

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

3.33 Islamic financing

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

Murabaha financing

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

3. Summary of significant accounting policies (continued)

3.33 Islamic financing (continued)

Ijara financing

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

Musharaka

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

Mudaraba

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

Salam

Bai Al Salam is a sale contract where the customer (seller) undertakes to deliver/supply a specified tangible asset to the Group (buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.
Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

Wakala

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

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

Sukuk

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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)

Impairment losses (continued)

- Models and assumptions used: The Group uses various models and assumptions in measuring ECL of financial assets. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer note 42 for more details on ECL.

Valuation of financial instruments

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

Valuation techniques used to calculate fair values are discussed in note 40. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

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

Fair valuation of investment properties

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

The fair value movements on investment properties are disclosed in more detail in note 12.

Consolidation of Funds

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

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 and this on a regular basis using all the information available (legislation, case law, regulations, established practice, authoritative doctrine as well as the current state of discussions with tax authorities, where appropriate). A liability is recorded for each item that is not probable of being sustained on examination by the tax authorities, based on all relevant information. The liability is calculated taking into account the most likely outcome or the expected value, depending on which is thought to give a better prediction of the resolution of each uncertain tax position in view of reflecting the likelihood of an adjustment being 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.
- 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.

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

4.2 Key sources of estimation uncertainty (continued)

Lease accounting under IFRS 16

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

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

Fair valuation of assets acquired and liabilities assumed in business combination

As stated in note 3.6 above, the identifiable assets acquired and the liabilities assumed in business combination are recognised at their fair value. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Such valuations are sensitive to changes in one or more unobservable inputs which are considered reasonably possible within the next financial year.

5. Cash and balances with central banks, net

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

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

6. Deposits and balances due from banks, net

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

7. Reverse-repo placements

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

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

8. Derivative financial instruments

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

A derivative is a financial instrument or other contract with all three of the following characteristics:
(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
(c) it is settled at a future date.

Derivative financial instruments which the Group enters into includes forward foreign exchange contracts, interest rate futures, forward rate agreements, commodity swaps, interest rate swaps and currency and interest rate options.

The Group uses the following derivative financial instruments for hedging and trading purposes.

Forward and Futures transactions

Currency forwards represent commitments to purchase foreign and domestic currencies, including non-deliverable forward transactions (i.e. the transaction is net settled). Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market. The credit risk for futures contracts is negligible as they are collateralised by cash or marketable securities and changes in the futures' contract value are settled daily with the broker. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate based on a notional principal amount.

8. Derivatives financial instruments (continued)

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.

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.

8. 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, 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**

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

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

8. Derivatives financial instruments (continued)

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

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

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

Forecasted net cash flows	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to less than 2 years AED'000	2 years to less than 5 years AED'000	Total AED'000
2019	**30,421**	**64,672**	**34,141**	**25,633**	**154,868**
2018	(19,388)	(16,314)	3,001	(8,860)	(41,561)

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

As at December 31, 2019, the Group placed cash collateral of AED 1,315,686 thousand (December 31, 2018 – AED 275,060 thousand) and bonds of AED 1,956,945 thousand (December 31, 2018 - AED 2,317,131 thousand) against the negative fair value of derivative liabilities. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

9. Investment securities

	UAE AED'000	Other GCC(*) countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2019				
Quoted:				
Government securities	**11,991,052**	**16,262,483**	**9,335,345**	**37,588,880**
Bonds – Public sector	**10,209,692**	**1,780,786**	**4,695,439**	**16,685,917**
Bonds – Banks and financial institutions	**6,882,385**	**479,304**	**5,083,594**	**12,445,283**
Bonds – Corporate	**1,302,004**	**473,176**	**302,977**	**2,078,157**
Equity instruments (**)	**251,237**	**110,809**	**81,623**	**443,669**
Mutual funds	**72,201**	**-**	**86,990**	**159,191**
Total quoted	**30,708,571**	**19,106,558**	**19,585,968**	**69,401,097**
Unquoted:				
Government securities	**3,509,814**	**174,598**	**-**	**3,684,412**
Bonds – Banks and financial institutions	**-**	**-**	**134,226**	**134,226**
Equity instruments	**183,077**	**-**	**35,106**	**218,183**
Mutual funds	**-**	**1,615**	**580**	**2,195**
Total unquoted	**3,692,891**	**176,213**	**169,912**	**4,039,016**
Total investment securities	**34,401,462**	**19,282,771**	**19,755,880**	**73,440,113**

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

9. Investment securities (continued)

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

(*) Gulf Cooperation Council

As at December 31, 2019, the allowance for impairment on debt instruments designated at FVTOCI amounting to AED 260,417 thousand (December 31, 2018 - AED 183,435 thousand) (Note 42.3) is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

The Group hedges interest rate and foreign currency risks on certain fixed rate and floating rate investments through interest rate and currency swaps and designates these as fair value and cash flow hedges, respectively. The net negative fair value of these swaps at December 31, 2019 was AED 1,010,614 thousand (December 31, 2018 – net negative fair value AED 85,541 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement.

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

	As at December 31, 2019		As at December 31, 2018	
	Carrying value of pledged securities AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged securities AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**1,041,439**	**851,056**	240,856	228,653

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

10. Loans and advances to customers, net

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

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

The Group hedges certain fixed rate and floating rate loans and advances to customers for interest rate risk using interest rate swaps and designates these instruments as fair value and cash flow hedges, respectively. The net positive fair value of these swaps at December 31, 2019 was AED 28,252 thousand (December 31, 2018 - net negative fair value of AED 60,106 thousand).

11. Investment in associates

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

	AED'000
As at January 1, 2018	205,372
Share in profit of associate	10,070
Dividend received from associate	(10,284)
As at January 1, 2019	**205,158**
Addition on business combinations (Note 52)	**197,855**
Share in profit of associates	**17,765**
Dividend received from associates	**(14,194)**
Impact of currency translation	**1,184**
As at December 31, 2019	**407,768**

11. Investment in associates (continued)

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

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

For balances and transactions with associates, refer note 36.

12. Investment properties

	AED'000
As at January 1, 2018	634,780
Disposal during the year	(1,900)
Revaluation of investment properties	(56,209)
As at January 1, 2019	**576,671**
Addition on business combinations (Note 52)	**1,180,799**
Additions during the year	**8,550**
Disposals during the year	**(5,859)**
Revaluation of investment properties	**(67,153)**
Impact of currency translation	**699**
As at December 31, 2019	**1,693,707**

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

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

Fair valuations

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

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

The valuation methodologies considered by external valuers include:

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

12. Investment properties (continued)

Fair valuations (continued)

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

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

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

Lease receivables

Group as lessor

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

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

13. Other assets, net

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

14. Property and equipment, net

	Freehold properties and improvements AED'000	Leasehold improvements AED'000	Furniture, equipment and vehicles AED'000	Computer equipment, software and accessories AED'000	Capital work in progress AED'000	Right of use asset AED'000	Total AED'000
Cost or valuation							
As at January 1, 2018	872,782	191,420	213,297	1,047,216	76,853	-	2,401,568
Exchange difference	(277)	(9)	(201)	(475)	(97)	-	(1,059)
Additions during the year	-	231	436	813	198,421	-	199,901
Transfers	16,817	16,178	12,483	149,123	(194,601)	-	-
Transfer to expenses	-	-	-	-	(970)	-	(970)
Disposals during the year	-	(11)	(623)	(78)	-	-	(712)
As at January 1, 2019	889,322	207,809	225,392	1,196,599	79,606	-	2,598,728
Addition on business combinations (Note 52)	**663,645**	**121,478**	**53,651**	**116,459**	**43,065**	**90,069**	**1,088,367**
Recognition of right of use asset on adoption of IFRS 16 (Note 3.7)	**-**	**-**	**-**	**-**	**-**	**141,722**	**141,722**
Exchange difference	**3,416**	**1,630**	**696**	**1,599**	**109**	**3,429**	**10,879**
Additions during the year	**47**	**3,553**	**2,169**	**12,766**	**254,809**	**80,347**	**353,691**
Transfers	**463**	**20,926**	**6,374**	**193,127**	**(220,890)**	**-**	**-**
Transfer to expenses	**-**	**-**	**-**	**-**	**(1,672)**	**-**	**(1,672)**
Transfer to held for sale	**(2,952)**	**(383)**	**(1,848)**	**(6,545)**	**-**	**-**	**(11,728)**
Disposals during the year	**(6,154)**	**(966)**	**(1,637)**	**(362)**	**-**	**-**	**(9,119)**
As at December 31, 2019	**1,547,787**	**354,047**	**284,797**	**1,513,643**	**155,027**	**315,567**	**4,170,868**
Accumulated depreciation							
As at January 1, 2018	401,515	146,074	174,317	719,566	-	-	1,441,472
Exchange difference	(86)	(2)	(134)	(381)	-	-	(603)
Charge for the year (Note 31)	36,626	12,135	14,107	113,059	-	-	175,927
Disposals during the year	-	(11)	(594)	(68)	-	-	(673)
As at January 1, 2019	**438,055**	**158,196**	**187,696**	**832,176**	**-**	**-**	**1,616,123**
Exchange difference	**(6)**	**80**	**53**	**80**	**-**	**136**	**343**
Charge for the year (Note 31)	**58,771**	**29,338**	**23,023**	**183,559**	**-**	**71,423**	**366,114**
Transfer to held for sale	**(983)**	**(102)**	**(1,300)**	**(5,333)**	**-**	**-**	**(7,718)**
Disposals during the year	**(69)**	**(81)**	**(1,071)**	**(344)**	**-**	**-**	**(1,565)**
As at December 31, 2019	**495,768**	**187,431**	**208,401**	**1,010,138**	**-**	**71,559**	**1,973,297**
Carrying amount							
As at December 31, 2019	**1,052,019**	**166,616**	**76,396**	**503,505**	**155,027**	**244,008**	**2,197,571**
As at December 31, 2018	451,267	49,613	37,696	364,423	79,606	-	982,605

15. Intangible assets, net

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

Goodwill

Goodwill arising on business combinations during 2019

On May 1, 2019, Union National Bank PJSC (or "UNB") merged with Abu Dhabi Commercial Bank PJSC in a stock transaction. The merged entity subsequently completed 100% acquisition of Al Hilal Bank PJSC (or "AHB"). Based on the preliminary fair valuation and purchase price allocation exercise performed by an external consultant following the merger and acquisition, the Bank recognised AED 785,000 thousand as intangible assets and AED 4,592,872 thousand as goodwill. As the purchase price allocation exercise is expected to complete within twelve months from the date of business combinations, it is possible that different values may be attributed to the assets, liabilities and contingent liabilities acquired, and hence, there can be a change in the value of goodwill recognised on merger and acquisition (Refer note 52 for details).

Impairment assessment of goodwill

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

The key guidance offered by the standard is that CGU selection will be influenced by 'how management monitors the entity's operations (such as by product lines, businesses, individual locations, districts or regional areas) or how management makes decisions about continuing or disposing of the entity's assets and operations'.

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

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

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

15. Intangible assets, net (continued)

Goodwill arising on acquisition of RBS portfolio

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

No impairment loss on goodwill was recognised during the year ended December 31, 2019 (2018 - AED Nil).

Other intangible assets

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

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

16. Due to banks

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

The Group hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net positive fair value of these swaps at December 31, 2019 was AED 14,719 thousand (December 31, 2018 – net negative fair value of AED 3,008 thousand).

17. Deposits from customers

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

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

The Group hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net positive fair value of these swaps at December 31, 2019 was AED 52,648 thousand (December 31, 2018 – net negative fair value of AED 40,044 thousand).

18. Euro commercial paper

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

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

The Group hedges certain ECP for foreign currency exchange rate risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net positive fair value of these hedge contracts as at December 31, 2019 was AED 6,060 thousand (December 31, 2018 - net negative fair value of AED 34,895 thousand).

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

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

	AED'000
As at January 1, 2018	2,909,845
Net proceeds from issuances	8,438,096
Repayments	(8,113,901)
Other movements	45,262
As at January 1, 2019	**3,279,302**
Net proceeds from issuances	**3,777,878**
Repayments	**(5,035,632)**
Other movements	**40,790**
As at December 31, 2019	**2,062,338**

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

19. Borrowings

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

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

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

19. **Borrowings** (continued)

The details of borrowings as at December 31, 2018 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	649,799	78,613	723,569	372,866	1,824,847
	Chinese renminbi (CNH)	379,195	130,085	64,709	-	573,989
	Euro (EUR)	167,632	219,047	-	83,532	470,211
	Swiss franc (CHF)	-	298,691	648,917	373,533	1,321,141
	Japanese yen (JPY)	50,092	83,592	-	-	133,684
	Hong Kong dollar (HKD)	-	297,650	179,361	71,798	548,809
	US dollar (USD)	5,308,791	3,772,456	3,137,192	11,479,505	23,697,944
		6,555,509	4,880,134	4,753,748	12,381,234	28,570,625
Bilateral loans – floating rate	US dollar (USD)	-	4,947,819	1,237,915	-	6,185,734
Syndicated loan – floating rate	US dollar (USD)	2,201,050	734,600	-	-	2,935,650
Certificate of deposits issued	Great Britain pound (GBP)	163,944	-	-	-	163,944
	Indian rupee (INR)	312,804	-	-	-	312,804
	US dollar (USD)	1,872,803	97,713	-	-	1,970,516
Subordinated notes – fixed rate	US dollar (USD)	-	-	2,659,823	-	2,659,823
Borrowings through repurchase agreements	US dollar (USD)	-	-	-	202,333	202,333
	Indian rupee (INR)	26,320	-	-	-	26,320
Total borrowings		11,132,430	10,660,266	8,651,486	12,583,567	43,027,749

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at December 31, 2018 was AED 1,286,457 thousand.

19. Borrowings (continued)

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

Instrument	CCY	Within 1 year	1-3 years	3-5 years	Over 5 years
Global medium term notes	AUD	-	Fixed rate between 3.73% p.a. to 3.92% p.a. and quarterly coupons with 138 basis points over bank bill swap rate (BBSW)	-	Fixed rate between 2.69% p.a. to 4.50% p.a.
	CNH	-	Fixed rate between 4.05% p.a. to 5.02% p.a.	Fixed rate of 4.60% p.a.	-
	EUR	Quarterly coupons between 50 to 59 basis points over Euribor	Fixed rate of 0.04% p.a.	Fixed rate of 0.75% p.a.	-
	CHF	-	-	Fixed rate between 0.05% p.a. and 0.735% p.a.	-
	JPY	-	Fixed rate of 0.445% p.a.	-	-
	HKD	Fixed rate between 2.30% p.a. to 2.46% p.a.	Fixed rate between 2.69% p.a. to 3.20% p.a.	Fixed rate between 2.84% p.a. to 2.87% p.a.	-
	USD	Fixed rate of 2.625% p.a. and quarterly coupons between 63 to 90 basis points over Libor	Fixed rate of 2.75% p.a. and quarterly coupons between 80 to 140 basis points over Libor	Fixed rate of 4.00% p.a. and quarterly coupons between 110 to 155 basis points over Libor	Fixed rate between 3.82% p.a. to 5.785% p.a. and quarterly coupons with 140 basis points over Libor (*)
	GBP	-	Fixed rate between 1.40% p.a. to 2.03% p.a.	-	-
	IDR	-	-	-	Fixed rate between 7.50% p.a. to 8.16% p.a.
Islamic Sukuk notes	USD	-	-	Fixed rate of 4.375% p.a.	-
Bilateral loans – floating rate	USD	Monthly and quarterly coupons of 60 basis points over Libor	Monthly coupons between 50 to 85 basis points over Libor	Monthly coupons of 95 basis points over Libor	-
Syndicated loan – floating rate	USD	Monthly coupons with 73 basis point over Libor	-	-	-
Certificate of deposits issued	GBP	Fixed rate between 0.79% p.a. to 0.92% p.a.	-	-	-
	USD	Fixed rate between 1.90% p.a. to 2.84% p.a.	-	-	-
	CAD	Fixed rate of 2.40% p.a.	-	-	-
Subordinated notes – fixed rate	USD	-	-	Fixed rate of 4.50% p.a.	-
Borrowings through repurchase agreements	USD	Fixed rate between 1.00% p.a. to 3.85% p.a.	-	-	Semi-annual coupons between negative 20 to negative 18 basis points over Libor
	EGP	Fixed rate between 0.50% p.a. to 3.50% p.a.	Fixed rate of 3.00% p.a.	-	Fixed rate between 0.50% p.a. to 3.50% p.a.

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

19. 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 the UAE Central Bank. Further, the subordinated fixed rate note has entered its five years to maturity and is being amortised at the rate of 20% per annum till its maturity in 2023 (Note 49).

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

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

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

20. Other liabilities

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

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

Defined benefit obligation

The Group provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2019 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost, were measured using the Projected Unit Credit Method.

20. Other liabilities (continued)

Key assumptions used in the actuarial valuation are as follows:

Discount rate: 2.80% p.a.
Salary increment rate: 3.00% p.a.

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

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

The movement in defined benefit obligation is as follows:

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

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

Defined benefit contribution

Under defined contribution plans, the Group pays contributions to Abu Dhabi Retirement Pensions and Benefits Fund for UAE National employees and to respective pension funds for other employees including GCC Nationals. The charge for the year in respect of these contributions is AED 55,930 thousand (2018 – AED 35,404 thousand). As at December 31, 2019, pension payable of AED 7,139 thousand has been classified under 'Other liabilities – others' (December 31, 2018 – AED 4,073 thousand).

Tax matters

The Group's current tax provision include management's assessment of portion of amount of tax payable on claims from relevant tax authorities. Uncertain tax items for which a provision of AED 15,000 thousand as at December 31, 2019 (December 31, 2018 – AED Nil) is included under 'Other liabilities – others' relates principally to the interpretation of tax legislation applicable to arrangements entered into by the Group. Due to the uncertainty associated with such tax items, it is possible that, on conclusion of open tax matters at a future date, the final outcome may differ.

21. Share capital

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

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

	UNB AED'000	AHB AED'000	Total AED'000
Ordinary share capital issued	1,641,501	117,647	**1,759,148**
Share premium	14,576,530	882,353	**15,458,883**
Purchase consideration (Note 52)	**16,218,031**	**1,000,000**	**17,218,031**

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

Dividends

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

22. Other reserves

Reserves movement for the year ended December 31, 2019:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated FVTOCI AED'000	Attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2019	(41,758)	2,797,799	2,797,799	2,000,000	150,000	(86,249)	(148,778)	(609,542)	6,859,271	-	6,859,271
Exchange difference arising on translation of foreign operations	-	-	-	-	-	31,728	-	-	31,728	1,161	32,889
Net fair value changes on cash flow hedges	-	-	-	-	-	-	152,115	-	152,115	-	152,115
Net fair value changes on cash flow hedges reclassified to consolidated income statement	-	-	-	-	-	-	19,390	-	19,390	-	19,390
Net fair value changes of debt instruments designated at FVTOCI	-	-	-	-	-	-	-	1,198,640	1,198,640	1,261	1,199,901
Amounts reclassified to consolidated income statement for debt instruments designated at FVTOCI (*)	-	-	-	-	-	-	-	77,802	77,802	-	77,802
Net fair value changes of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	(26,763)	(26,763)	-	(26,763)
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	(23,853)	(23,853)	-	(23,853)
Total other comprehensive income for the year	-	-	-	-	-	31,728	171,505	1,225,826	1,429,059	2,422	1,431,481
Transfer from retained earnings	-	478,968	478,968	-	-	-	-	-	957,936	-	957,936
Fair value adjustments	(18)	-	-	-	-	-	-	-	(18)	-	(18)
Shares – vested portion (Note 24)	11,671	-	-	-	-	-	-	-	11,671	-	11,671
As at December 31, 2019	(30,105)	3,276,767	3,276,767	2,000,000	150,000	(54,521)	22,727	616,284	9,257,919	2,422	9,260,341

(*) includes allowance for impairment

For more information on reserves refer note 49.

22. Other reserves (continued)

Reserves movement for the year ended December 31, 2018:

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

(*) includes allowance for impairment

23. Islamic financing

Islamic financing assets

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

Gross Ijara and related present value of the minimum Ijara payments

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

Income from Islamic financing

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

Islamic deposits

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

Islamic profit distribution

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

24. Employees' incentive plan shares, net

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

As at December 31, 2019, the Group had the following incentive plan in force as described below:

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

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

The movement of plan shares is as follows:

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

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

25. Capital notes

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

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

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

25. Capital notes (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 (Note 52). The terms and conditions applicable to these notes are similar to the Notes issued by ADCB.

Further, AHB's Tier I regulatory capital note amounting to AED 1,836,500 thousand assumed on the date of acquisition (Note 52), were settled in June 2019.

26. Interest income

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

27. Interest expense

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

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

28. Net fees and commission income

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

29. Net trading income

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

30. Other operating income

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

31. Operating expenses

	2019 AED'000	2018 AED'000
Staff expenses	**2,583,719**	1,838,475
Depreciation (Note 14)	**366,114**	175,927
Amortisation of intangible assets (Note 15)	**64,175**	-
General administrative expenses	**1,503,671**	1,069,099
Total operating expenses	**4,517,679**	3,083,501

32. Impairment allowances

	2019 AED'000	2018 AED'000
Financial instruments carried at amortised cost		
Charge during the year	**2,549,373**	1,503,800
Recoveries during the year	**(234,525)**	(218,089)
Financial instruments carried at amortised cost – net charge	**2,314,848**	1,285,711
Debt instruments designated at FVTOCI – net charge/(release)	**76,982**	(22,601)
Commitments and contingent liabilities – net (release)/charge	**(39,776)**	2,677
Total impairment allowances (Note 42.3)	**2,352,054**	1,265,787

33. Earnings per share

Basic and diluted earnings per share

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

	2019 AED'000	2018 AED'000
Profit for the year attributable to the equity holders of the Bank	**4,789,686**	4,839,854
Less: Coupons paid on capital notes (Note 25)	**(265,056)**	(174,789)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	**4,524,630**	4,665,065
	Number of shares in thousand	
Weighted average number of shares in issue throughout the year	**6,379,029**	5,198,231
Less: Weighted average number of shares resulting from employees' incentive plan shares	**(9,024)**	(12,470)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	**6,370,005**	5,185,761
Add: Weighted average number of shares resulting from employees' incentive plan shares	**9,024**	12,470
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	**6,379,029**	5,198,231
Basic earnings per share (AED) (a)/(b)	**0.71**	0.90
Diluted earnings per share (AED) (a)/(c)	**0.71**	0.90

34. Discontinued operations

The Group has classified Al Hilal Takaful PSC (subsidiary) as disposal group held for sale. Subsequent to the reporting date, the Group has executed a sale agreement to sell its entire holding in Al Hilal Takaful PSC. In addition, the Group has also decided to discontinue the operations in Group's overseas branches in India, Qatar, Kuwait and China and Al Hilal Auto LLC (subsidiary). These have been presented separately in the statement of financial position.

Loss from discontinued operations comprises of the following:

For the year ended December 31, 2019	**AED'000**
Total net interest and Islamic financing income	**15,722**
Non-interest income	**(24,253)**
Operating expenses	**(3,362)**
Impairment allowances	**(24,825)**
Overseas tax expense	**(41)**
Total loss from discontinued operations	**(36,759)**

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

34. Discontinued operations (continued)

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

	As at December 31 2019 AED'000
Assets	
Cash and balances with central banks, net	**217,916**
Deposits and balances due from banks, net	**1,715**
Loans and advances to customers, net	**48,942**
Other assets, net	**263,665**
Property and equipment, net	**3,592**
Total assets classified as held for sale	**535,830**
Liabilities	
Deposits from customers	**120,283**
Other liabilities	**293,112**
Total liabilities related to assets held for sale	**413,395**

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

For the year ended December 31, 2019	AED'000
Net cash used in operating activities	**(66,341)**
Net cash from investing activities	**260,383**
Net cash used in financing activities	**(212,759)**
Net cash used in discontinued operations	**(18,717)**

35. Cash and cash equivalents

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

	2019 AED'000	2018 AED'000
Cash and balances with central banks	**24,905,213**	19,590,185
Deposits and balances due from banks (excluding loans and advances to banks)	**11,389,514**	12,638,037
Reverse-repo placements	**-**	2,203,800
Due to banks	**(5,732,779)**	(3,071,408)
	30,561,948	31,360,614
Less: Cash and balances with central banks, deposits and balances due from banks and reverse-repo placements – with original maturity of more than three months	**(10,442,791)**	(9,935,092)
Add: Due to banks – with original maturity of more than three months	**2,553,434**	1,669,331
Add: Cash and cash equivalents included in assets held for sale	**183,682**	-
Total cash and cash equivalents	**22,856,273**	23,094,853

36. Related party transactions

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

36. 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.

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

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

Parent and ultimate controlling party

Abu Dhabi Investment Council holds 60.20% (December 31, 2018 - 62.523%) of the Bank's issued and fully paid up share capital (Note 21). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006 and so the ultimate controlling party is the Government of Abu Dhabi.

Related party balances and transactions

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

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

36. 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, 2018					
Deposits and balances due from banks	1,707,946	-	-	-	1,707,946
Reverse-repo placements	2,020,150	-	-	-	2,020,150
Derivative financial instruments - assets	970,918	-	-	-	970,918
Investment securities	15,300,944	-	-	149,903	15,450,847
Loans and advances to customers	26,795,630	213,912	21,587	217,802	27,248,931
Other assets	521,871	4,731	24	3,611	530,237
Due to banks	13,000	-	-	-	13,000
Derivative financial instruments - liabilities	221,940	-	-	-	221,940
Deposits from customers	50,141,282	246,602	55,868	96,463	50,540,215
Other liabilities	497,305	3,461	14,851	918	516,535
Capital notes	4,000,000	-	-	-	4,000,000
Commitments and contingent liabilities	4,432,669	118,536	2,197	28,856	4,582,258
Transactions for the year ended December 31, 2018					
Interest income, Islamic financing income, fees and other income	1,031,735	11,543	862	30,176	1,074,316
Interest expense and Islamic profit distribution	924,113	480	858	466	925,917
Derivative loss	43,072	-	-	-	43,072
Share in profit of associate	-	-	-	10,070	10,070
Coupons paid on capital notes	174,789	-	-	-	174,789

As at December 31, 2019, Funds under management held 3,235,817 shares (December 31, 2018: 2,328,534 shares) of the Bank. During the year, the Bank paid dividend of AED 898 thousand (2018: AED 1,778 thousand) to these Funds.

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

	2019 AED'000	2018 AED'000
Short term benefits	**29,176**	28,795
Post-employment benefits	**2,578**	4,299
Variable pay benefits	**29,788**	26,035
Total remuneration	**61,542**	59,129
Board of Directors fees and expenses	**13,143**	9,765

In addition to the above, the key management personnel were granted long term deferred compensation of AED 26,763 thousand (2018 - AED 20,315 thousand).

Business combinations under common control

During the year, the Bank was involved in business combinations under common control. Refer note 52 for details.

37. Commitments and contingent liabilities

The Group has the following commitments and contingent liabilities:

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Letters of credit	**7,239,078**	5,322,188
Guarantees	**60,261,667**	28,673,986
Commitments to extend credit – revocable (*)	**20,932,010**	11,244,578
Commitments to extend credit – irrevocable	**20,214,940**	14,528,686
Total commitments on behalf of customers	**108,647,695**	59,769,438
Commitments for future capital expenditure	**486,941**	461,668
Commitments to invest in investment securities	**1,757**	51,995
Total commitments and contingent liabilities	**109,136,393**	60,283,101

(*) includes AED 7,907,139 thousand (December 31, 2018: AED 6,752,159 thousand) for undrawn credit card limits

Credit-related commitments

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

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would be exposed to market risk if issued or extended at a fixed rate of interest. However these contracts are primarily made at floating rates.

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

38. Operating segments

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

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

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

38. 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, 2019:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	**3,157,262**	**2,280,357**	**2,032,909**	**42,251**	**7,512,779**
Net income from Islamic financing	**881,559**	**447,442**	**391,140**	**8,216**	**1,728,357**
Total net interest and Islamic financing income	**4,038,821**	**2,727,799**	**2,424,049**	**50,467**	**9,241,136**
Non-interest income	**997,209**	**954,099**	**346,513**	**183,183**	**2,481,004**
Operating expenses	**(2,744,556)**	**(1,289,816)**	**(321,620)**	**(161,687)**	**(4,517,679)**
Operating profit before impairment allowances	**2,291,474**	**2,392,082**	**2,448,942**	**71,963**	**7,204,461**
Impairment allowances	**(1,230,556)**	**(1,041,856)**	**(79,642)**	**-**	**(2,352,054)**
Operating profit after impairment allowances	**1,060,918**	**1,350,226**	**2,369,300**	**71,963**	**4,852,407**
Share in profit of associates	**17,765**	**-**	**-**	**-**	**17,765**
Profit before taxation	**1,078,683**	**1,350,226**	**2,369,300**	**71,963**	**4,870,172**
Overseas income tax expense	**(10,323)**	**(12,092)**	**(18,511)**	**-**	**(40,926)**
Loss from discontinued operations	**(9,243)**	**(27,516)**	**-**	**-**	**(36,759)**
Profit for the year	**1,059,117**	**1,310,618**	**2,350,789**	**71,963**	**4,792,487**
Capital expenditure					**273,344**
As at December 31, 2019					
Allocated assets	**107,842,598**	**171,219,179**	**119,785,206**	**1,694,822**	**400,541,805**
Unallocated asset – goodwill recognised on business combinations (Note 15)	**-**	**-**	**-**	**-**	**4,592,872**
Total assets					**405,134,677**
Total liabilities	**85,941,571**	**128,805,940**	**134,561,783**	**127,739**	**349,437,033**

38. Operating segments (continued)

The following is an analysis of the Group's revenue and results by operating segments for the year ended December 31, 2018:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	2,646,345	1,956,453	1,449,144	60,337	6,112,279
Net income from Islamic financing	475,102	337,328	287,223	7,192	1,106,845
Total net interest and Islamic financing income	3,121,447	2,293,781	1,736,367	67,529	7,219,124
Non-interest income	796,605	711,198	299,643	154,875	1,962,321
Operating expenses	(1,893,403)	(843,844)	(228,137)	(118,117)	(3,083,501)
Operating profit before impairment allowances	2,024,649	2,161,135	1,807,873	104,287	6,097,944
Impairment (allowances)/recoveries	(834,828)	(453,099)	22,140	-	(1,265,787)
Operating profit after impairment allowances	1,189,821	1,708,036	1,830,013	104,287	4,832,157
Share in profit of associate	10,070	-	-	-	10,070
Profit before taxation	1,199,891	1,708,036	1,830,013	104,287	4,842,227
Overseas income tax expense	(1,595)	(778)	-	-	(2,373)
Profit for the year	1,198,296	1,707,258	1,830,013	104,287	4,839,854
Capital expenditure					198,436
As at December 31, 2018					
Total assets	72,988,378	115,918,590	90,368,977	554,393	279,830,338
Total liabilities	53,779,990	88,893,849	104,261,700	89,256	247,024,795

For the purpose of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments except for goodwill recognised on business combinations (Note 15).

Other disclosures

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

	External		Inter-segment	
	2019 AED'000	2018 AED'000	**2019 AED'000**	2018 AED'000
Consumer banking	**6,543,825**	5,150,822	**(1,507,795)**	(1,232,770)
Wholesale banking	**5,295,885**	4,243,633	**(1,613,987)**	(1,238,654)
Investments and treasury	**(265,408)**	(326,768)	**3,035,970**	2,362,778
Property management	**147,838**	113,758	**85,812**	108,646
Total operating income	**11,722,140**	9,181,445	**-**	-

38. 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 in Kuwait, Qatar, China, India, Jersey and through its subsidiaries outside UAE. The information regarding the Group's revenue from continuing operations and non-current assets by geographical location are detailed as follows:

	Domestic		International	
	2019 AED'000	2018 AED'000	**2019 AED'000**	2018 AED'000
Income				
Net interest and Islamic financing income	**9,091,578**	7,229,494	**149,558**	(10,370)
Non-interest income	**2,420,230**	1,954,487	**60,774**	7,834
Non-current assets				
Investment in associates	**387,627**	205,158	**20,141**	-
Investment properties	**1,684,448**	576,671	**9,259**	-
Property and equipment, net	**2,023,029**	977,778	**174,542**	4,827
Intangible assets	**5,211,497**	18,800	**121,000**	-

39. Financial instruments

Categories of financial instruments

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

	Mandatorily measured at FVTPL AED'000	Hedging derivatives AED'000	Debt instruments classified at FVTOCI AED'000	Equity instruments designated at FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	**-**	**-**	**-**	**-**	**24,904,966**	**24,904,966**
Deposits and balances due from banks, net	**-**	**-**	**-**	**-**	**23,064,974**	**23,064,974**
Derivative financial instruments	**5,566,426**	**1,223,291**	**-**	**-**	**-**	**6,789,717**
Investment securities	**-**	**-**	**72,616,875**	**823,238**	**-**	**73,440,113**
Loans and advances to customers, net	**-**	**-**	**-**	**-**	**250,017,326**	**250,017,326**
Other assets, net	**-**	**-**	**-**	**-**	**16,611,092**	**16,611,092**
Total financial assets	**5,566,426**	**1,223,291**	**72,616,875**	**823,238**	**314,598,358**	**394,828,188**
Liabilities						
Due to banks	**-**	**-**	**-**	**-**	**5,732,779**	**5,732,779**
Derivative financial instruments	**5,456,475**	**1,493,416**	**-**	**-**	**-**	**6,949,891**
Deposits from customers	**-**	**-**	**-**	**-**	**262,093,782**	**262,093,782**
Euro commercial paper	**-**	**-**	**-**	**-**	**2,062,338**	**2,062,338**
Borrowings	**-**	**-**	**-**	**-**	**51,882,054**	**51,882,054**
Other liabilities	**-**	**-**	**-**	**-**	**18,848,425**	**18,848,425**
Total financial liabilities	**5,456,475**	**1,493,416**	**-**	**-**	**340,619,378**	**347,569,269**

39. 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, 2018.

	Mandatorily measured at FVTPL AED'000	Hedging derivatives AED'000	Debt instruments classified at FVTOCI AED'000	Equity instruments designated at FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	-	-	-	-	19,589,957	19,589,957
Deposits and balances due from banks, net	-	-	-	-	19,627,076	19,627,076
Reverse-repo placements	-	-	-	-	2,203,800	2,203,800
Trading securities	60,134	-	-	-	-	60,134
Derivative financial instruments	4,077,151	370,096	-	-	-	4,447,247
Investment securities	-	-	51,960,155	402,079	-	52,362,234
Loans and advances to customers, net	-	-	-	-	166,425,762	166,425,762
Other assets, net	-	-	-	-	13,252,580	13,252,580
Total financial assets	4,137,285	370,096	51,960,155	402,079	221,099,175	277,968,790
Liabilities						
Due to banks	-	-	-	-	3,071,408	3,071,408
Derivative financial instruments	3,815,764	1,880,147	-	-	-	5,695,911
Deposits from customers	-	-	-	-	176,653,857	176,653,857
Euro commercial paper	-	-	-	-	3,279,302	3,279,302
Borrowings	-	-	-	-	43,027,749	43,027,749
Other liabilities	-	-	-	-	14,132,197	14,132,197
Total financial liabilities	3,815,764	1,880,147	-	-	240,164,513	245,860,424

40. Fair value hierarchy

Fair value measurements recognised in the consolidated financial statements

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

Quoted market prices – Level 1

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

Valuation techniques using observable inputs – Level 2

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

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

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

Valuation techniques using significant unobservable inputs – Level 3

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

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

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

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

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

Refer note 12 in respect of valuation methodology used for investment properties.

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

40. Fair value hierarchy (continued)

	Notes	Level 1 Quoted market prices AED'000	Level 2 Observable inputs AED'000	Level 3 Significant unobservable inputs AED'000	Total fair value AED'000	Carrying value AED'000
As at December 31, 2019						
Assets at fair value						
Derivative financial instruments	8	15	6,789,702	-	6,789,717	6,789,717
Investment securities	9					
- Quoted		65,909,746	3,491,351	-	69,401,097	69,401,097
- Unquoted		-	3,818,638	220,378	4,039,016	4,039,016
Investment properties	12	-	-	1,693,707	1,693,707	1,693,707
Total		65,909,761	14,099,691	1,914,085	81,923,537	81,923,537
Liabilities at fair value						
Derivative financial instruments	8	-	6,949,891	-	6,949,891	6,949,891
Liabilities at amortised cost				-		
Euro commercial paper	18	-	2,074,605		2,074,605	2,062,338
Borrowings	19	18,728,489	32,244,310	-	50,972,799	51,882,054
Total		18,728,489	41,268,806	-	59,997,295	60,894,283
As at December 31, 2018						
Assets at fair value						
Trading securities		60,134	-	-	60,134	60,134
Derivative financial instruments	8	56	4,447,191	-	4,447,247	4,447,247
Investment securities	9					
- Quoted		43,339,649	1,427,018	-	44,766,667	44,766,667
- Unquoted		-	7,343,724	251,843	7,595,567	7,595,567
Investment properties	12	-	-	576,671	576,671	576,671
Total		43,399,839	13,217,933	828,514	57,446,286	57,446,286
Liabilities at fair value						
Derivative financial instruments	8	275	5,695,636	-	5,695,911	5,695,911
Liabilities at amortised cost						
Euro commercial paper	18	-	3,285,187	-	3,285,187	3,279,302
Borrowings	19	15,427,393	26,186,580	-	41,613,973	43,027,749
Total		15,427,668	35,167,403	-	50,595,071	52,002,962

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

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

	As at December 31 2019 AED'000	As at December 31 2018 AED'000
Opening balance	251,843	333,137
Acquired on business combinations	35,005	-
Purchases, net during the year	18,119	34,818
Disposals including capital refunds during the year	(39,620)	(36,973)
IFRS 9 transition adjustment	-	56,687
Adjustment through other comprehensive income during the year	(44,969)	(135,826)
Closing balance	220,378	251,843

40. 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.

Gains of AED 23,853 thousand (2018 – gains of AED 1,596 thousand) was realised on disposal of Level 3 equity investments designated at FVTOCI and were transferred to retained earnings.

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

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

Unconsolidated structured entity

Level 1 financial instruments include the Group's investments in certain Funds. The total carrying value of investments in these Funds as at December 31, 2019 was AED 159,190 thousand (December 31, 2018 – AED 149,903 thousand). The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 28,365 thousand (December 31, 2018 – AED 28,365 thousand), out of which AED 185 thousand was utilised and outstanding as at December 31, 2019 (December 31, 2018 - AED 428 thousand). The maximum exposure to loss in these Funds is equal to the carrying value of the investments and credit risk carried in the facilities extended.

41. Risk Management

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

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

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

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

BACC provides assistance to the Board to fulfill its duties to ensure and oversee the Group's financial statements, independence and performance of the Group's external and internal auditors, compliance with legal and regulatory requirements and internal policies and internal control over financial reporting.

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

42. Credit Risk Management

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

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

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

42. Credit risk management (continued)

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

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

Risk ratings

Internal credit risk ratings

In order to measure credit risk, the Group Risk Management has developed credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises of ten categories and 21 risk grades. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis, etc. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. The Group uses 9 rating models to 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:

42. Credit risk management (continued)

Risk ratings (continued)

Internal credit risk ratings (continued)

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

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

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

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

Credit ratings are used by the Group to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. The bank also uses these internal ratings as a input to the IFRS9 ECL model and these ratings are also use to determine the staging of the customer.

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

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

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

The quality of credit risk exposure is disclosed in note 42.2.

42. 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, reverse-repo placements and bond securities designated at FVTOCI based on S&P's rating scale. Bond issuer level ratings are used in case ratings are not available at issuance level. Wherever S&P's ratings are not available, comparable Fitch or Moody's equivalent ratings scale is used.

	As at December 31, 2019		As at December 31, 2018		
Ratings	**Deposits and balances due from banks, gross AED'000**	**Bond securities designated at FVTOCI AED'000**	Deposits and balances due from banks, gross AED'000	Reverse-repo placements AED'000	Bond securities designated at FVTOCI AED'000
AAA to AA-	**1,105,612**	**20,443,712**	1,952,206	2,020,150	15,140,638
A+ to A-	**8,819,203**	**25,917,450**	7,502,039	183,650	15,502,091
BBB+ to BBB-	**3,616,247**	**10,468,670**	5,145,919	-	8,115,045
BB+ to B-	**8,707,552**	**8,756,621**	4,124,512	-	3,673,283
CCC+ to C-	**482**	**-**	-	-	251,845
UAE Sovereigns	**-**	**5,958,193**	-	-	8,968,664
Unrated	**865,840**	**1,072,229**	936,727	-	308,589
	23,114,936	**72,616,875**	19,661,403	2,203,800	51,960,155

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

	Internal Rating	**External Rating**	**2019 AED'000**	2018 AED'000
UAE Sovereigns	Grade 2 to 3	AA to A	**5,958,193**	8,968,664
Unrated	Grade 3- to 4	A-	**418,929**	152,694
	Grade 5 to 6	BB+ to BB	**443,075**	155,895
	Grade 7	CCC	**210,225**	-
			7,030,422	9,277,253

Significant increase in credit risk

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

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

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

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

42. 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 Central Bank of UAE guidelines.

Default – Stage 3

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

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

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

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

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

The Group also 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.

42. 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.

The Group changed the macro-econmic model used to predict corporate defaults – The change was made to align the model with last approved macro-economic model used in Central Bank stress testing submission.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at December 31, 2019 for the years 2020 to 2023, for UAE which is the country where the Group operates and therefore is the country that has a material impact on ECLs.

List of macro variables used	Definition	Used in	Range
Oil Price, Brent USD	Price per barrel	ADCB UAE	Between USD 40 and USD 90
Real GDP Growth	% change	ADCB UAE	Between 1.7% and 4.6%
Real Non-oil GDP Growth	% change	ADCB UAE	Between 1.9% and 5.1%
Abu Dhabi Real Estate Sale Prices	% change	ADCB UAE	Between -7.0% and 4.2%
Consumer inflation	% annual average	ADCB UAE	Between 1.2% and 2.8%
Dubai Real Estate Sale Prices	% change	ADCB UAE	Between -12% and -1%

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

As required by Central Bank, the Group aligns its macro-economic model used in ECL computation with the macro-economic model used in Central bank stress testing submissions.

Measurement of ECL

The key inputs used for measuring ECL are:

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

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

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

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

42. 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. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

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

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

Groupings based on shared risks characteristics

For assessing the significant increase in credit risk and for the measurement of ECL on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- product type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- economic sector/industry;
- geographic location of the borrower;
- income bracket of the borrower; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

42. Credit risk management (continued)

Credit risk disclosure

42.1 Maximum exposure to credit risk

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

The following table presents the maximum exposure of credit risk for amortised cost financial instruments, derivative financial instruments, investment securities (bonds) designated at FVTOCI and off-balance sheet financial instruments as at December 31, 2019 and 2018, after allowance for impairment and netting where appropriate and after taking into account any collateral held or other credit risk mitigants (CRMs).

	On-balance sheet AED'000	Off-balance sheet AED'000	Gross credit risk exposure AED'000	Gross CRM AED'000	Maximum credit risk exposure AED'000
As at December 31, 2019					
Cash and balances with central banks, net	**24,904,966**	**-**	**23,074,738**	**-**	**23,074,738**
Deposits and balances due from banks, net	**23,064,974**	**-**	**23,064,974**	**-**	**23,064,974**
Derivative financial instruments	**6,789,717**	**-**	**6,789,717**	**4,954,497**	**1,835,220**
Investment securities	**73,440,113**	**-**	**72,616,875**	**-**	**72,616,875**
Loans and advances to customers, net	**250,017,326**	**87,715,685**	**337,733,011**	**153,556,847**	**184,176,164**
Other assets, net	**16,750,208**	**-**	**16,607,641**	**-**	**16,607,641**
Total	**394,967,304**	**87,715,685**	**479,886,956**	**158,511,344**	**321,375,612**
As at December 31, 2018					
Cash and balances with central banks, net	19,589,957	-	18,090,957	-	18,090,957
Deposits and balances due from banks, net	19,627,076	-	19,627,076	-	19,627,076
Reverse-repo placements	2,203,800	-	2,203,800	2,203,800	-
Derivative financial instruments	4,447,247	-	4,447,247	3,544,828	902,419
Investment securities	52,362,234	-	51,960,155	-	51,960,155
Loans and advances to customers, net	166,425,762	48,524,860	214,950,622	115,517,388	99,433,234
Other assets, net	13,330,894	-	13,246,983	-	13,246,983
Total	277,986,970	48,524,860	324,526,840	121,266,016	203,260,824

The maximum exposure to credit risk of the investment securities (bonds) designated at FVTPL is their carrying amount, which amounts to AED Nil as at December 31, 2019 (December 31, 2018 - AED 60,134 thousand).

42.2 Gross exposure

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

42. Credit risk management (continued)

42.2 Gross exposure (continued)

As at December 31, 2019	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1 - 4	**142,813,914**	**459,862**	**-**	**-**	**143,273,776**
Grades 5 - 6	**84,343,366**	**9,937,227**	**449,146**	**-**	**94,729,739**
Grade 7	**4,866,580**	**9,255,035**	**275,941**	**-**	**14,397,556**
Grades 8 - 10	**-**	**-**	**6,882,654**	**3,726,497**	**10,609,151**
Unrated	**54,143,240**	**1,973,667**	**898,089**	**142,362**	**57,157,358**
Gross financial instruments carried at amortised cost	**286,167,100**	**21,625,791**	**8,505,830**	**3,868,859**	**320,167,580**
Debt instruments designated at FVTOCI					
Grades 1 - 4	**62,711,131**	**-**	**-**	**-**	**62,711,131**
Grades 5 - 6	**7,165,943**	**2,529,575**	**-**	**-**	**9,695,518**
Grade 7	**-**	**-**	**210,226**	**-**	**210,226**
Gross debt instruments designated at FVTOCI	**69,877,074**	**2,529,575**	**210,226**	**-**	**72,616,875**
Commitments and contingent liabilities					
Grades 1 - 4	**44,424,128**	**136,837**	**-**	**-**	**44,560,965**
Grades 5 - 6	**32,162,448**	**2,307,143**	**-**	**-**	**34,469,591**
Grade 7	**4,440,473**	**2,808,267**	**-**	**-**	**7,248,740**
Grades 8 - 10	**-**	**-**	**-**	**932,213**	**932,213**
Unrated	**494,498**	**-**	**-**	**9,678**	**504,176**
Total commitments and contingent liabilities	**81,521,547**	**5,252,247**	**-**	**941,891**	**87,715,685**

As at December 31, 2018	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments carried at amortised cost				
Grades 1 - 4	116,172,078	871,408	-	117,043,486
Grades 5 - 6	54,442,891	6,080,145	22,920	60,545,956
Grade 7	2,009,854	8,214,653	314,440	10,538,947
Grades 8 - 10	-	-	4,224,617	4,224,617
Unrated	32,144,064	1,207,979	665,185	34,017,228
Gross financial instruments carried at amortised cost	204,768,887	16,374,185	5,227,162	226,370,234
Debt instruments designated at FVTOCI				
Grades 1 - 4	49,051,583	-	-	49,051,583
Grades 5 - 6	1,517,888	1,138,839	-	2,656,727
Grade 7	-	251,845	-	251,845
Gross debt instruments designated at FVTOCI	50,569,471	1,390,684	-	51,960,155
Commitments and contingent liabilities				
Grades 1 - 4	26,486,370	196,318	-	26,682,688
Grades 5 - 6	17,377,416	1,367,389	-	18,744,805
Grade 7	1,643,725	1,140,022	-	2,783,747
Unrated	313,620	-	-	313,620
Total commitments and contingent liabilities	45,821,131	2,703,729	-	48,524,860

42. Credit risk management (continued)

42.2 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, 2019	204,768,887	16,374,185	5,227,162	-	226,370,234
Addition on business combinations	97,079,741	-	-	4,259,995	101,339,736
- Transfer from stage 1 to stage 2	(6,518,468)	6,518,468	-	-	-
- Transfer from stage 1 to stage 3	(2,896,606)	-	2,896,606	-	-
- Transfer from stage 2 to stage 1	1,297,573	(1,297,573)	-	-	-
- Transfer from stage 2 to stage 3	-	(2,537,089)	2,537,089	-	-
- Transfer from stage 3 to stage 1	1,030	-	(1,030)	-	-
- Transfer from stage 3 to stage 2	-	51,556	(51,556)	-	-
Other movements within the same stage	(11,191,142)	1,914,111	(17,020)	(252,176)	(9,546,227)
New financial assets originated/purchased	55,931,880	1,886,818	87,268		57,905,966
Financial assets that have been derecognized	(52,305,795)	(1,284,685)	(248,058)	(97,295)	(53,935,833)
Net amounts written-off	-	-	(1,924,631)	(41,665)	(1,966,296)
Balance as at December 31, 2019	286,167,100	21,625,791	8,505,830	3,868,859	320,167,580
Debt instruments designated at FVTOCI					
Balance as at January 1, 2019	50,569,471	1,390,684	-	-	51,960,155
Addition on business combinations	20,164,428	-	-	-	20,164,428
- Transfer from stage 1 to stage 2	(1,174,443)	1,174,443	-	-	-
- Transfer from stage 2 to stage 3	-	(251,845)	251,845	-	-
Other movements within the same stage	1,560,563	216,293	(41,619)	-	1,735,237
New financial assets originated/purchased	29,443,129	-	-	-	29,443,129
Financial assets that have been derecognised	(30,686,074)	-	-	-	(30,686,074)
Balance as at December 31, 2019	69,877,074	2,529,575	210,226	-	72,616,875
Commitments and contingent liabilities					
Balance as at January 1, 2019	45,821,131	2,703,729	-	-	48,524,860
Addition on business combinations	37,820,672	-	-	1,185,966	39,006,638
- Transfer from stage 1 to stage 2	(2,152,154)	2,152,154	-	-	-
- Transfer from stage 2 to stage 1	300,145	(300,145)	-	-	-
Other movements within the same stage	(5,379,011)	1,004,548	-	(244,075)	(4,618,538)
New financial assets originated/purchased	20,772,101	525,500	-	-	21,297,601
Financial assets that have been derecognised	(15,661,337)	(833,539)	-	-	(16,494,876)
Balance as at December 31, 2019	81,521,547	5,252,247	-	941,891	87,715,685

As part of business combinations, the Bank acquired AED 84,049,403 thousand of gross loans excluding POCI loans. Fair value adjustments including historical ECL on these acquired loans amounting to AED 3,549,673 thousand has been netted off from the gross exposure acquired.

42. Credit risk management (continued)

42.2 Gross exposure (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments carried at amortised cost				
Balance as at January 1, 2018	194,575,357	14,616,888	3,715,415	212,907,660
- Transfer from stage 1 to stage 2	(3,937,547)	3,937,547	-	-
- Transfer from stage 1 to stage 3	(2,043,339)	-	2,043,339	-
- Transfer from stage 2 to stage 1	1,038,321	(1,038,321)	-	-
- Transfer from stage 2 to stage 3	-	(1,456,777)	1,456,777	-
- Transfer from stage 3 to stage 1	1,447	-	(1,447)	-
- Transfer from stage 3 to stage 2	-	96,791	(96,791)	-
Other movements within the same stage	(81,480)	(131,028)	(240,008)	(452,516)
New financial assets originated/purchased	59,822,709	1,241,567	233,413	61,297,689
Financial assets that have been derecognised	(44,606,581)	(892,482)	(126,978)	(45,626,041)
Net amounts written-off	-	-	(1,756,558)	(1,756,558)
Balance as at December 31, 2018	204,768,887	16,374,185	5,227,162	226,370,234
Debt instruments designated at FVTOCI				
Balance as at January 1, 2018	46,976,331	1,718,356	-	48,694,687
- Transfer from stage 1 to stage 2	(143,482)	143,482	-	-
- Transfer from stage 2 to stage 1	137,459	(137,459)	-	-
Other movements within the same stage	(877,321)	(100,353)	-	(977,674)
New financial assets originated/purchased	29,438,868	-	-	29,438,868
Financial assets that have been derecognised	(24,962,384)	(233,342)	-	(25,195,726)
Balance as at December 31, 2018	50,569,471	1,390,684	-	51,960,155
Commitments and contingent liabilities				
Balance as at January 1, 2018	38,103,907	2,858,101	-	40,962,008
- Transfer from stage 1 to stage 2	(1,222,768)	1,222,768	-	-
- Transfer from stage 2 to stage 1	730,308	(730,308)	-	-
Other movements within the same stage	(1,743,265)	(317,217)	-	(2,060,482)
New financial assets originated/purchased	21,983,795	553,644	-	22,537,439
Financial assets that have been derecognised	(12,030,846)	(883,259)	-	(12,914,105)
Balance as at December 31, 2018	45,821,131	2,703,729	-	48,524,860

42. Credit risk management (continued)

42.3 Expected credit losses

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

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

As at December 31, 2018	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments carried at amortised cost				
Grades 1 - 4	58,514	2,000	-	60,514
Grades 5 - 6	254,059	224,629	5,895	484,583
Grade 7	101,760	2,382,669	29,357	2,513,786
Grades 8 - 10	-	-	2,481,889	2,481,889
Unrated	437,579	378,476	418,829	1,234,884
Allowance for impairment	851,912	2,987,774	2,935,970	6,775,656
Debt instruments designated at FVTOCI				
Grades 1 - 4	9,882	-	-	9,882
Grades 5 - 6	14,050	29,584	-	43,634
Grade 7	-	129,919	-	129,919
Allowance for impairment	23,932	159,503	-	183,435
Commitments and contingent liabilities				
Grades 1 - 4	5,962	9,954	-	15,916
Grades 5 - 6	64,683	35,312	-	99,995
Grade 7	42,010	191,774	-	233,784
Unrated	57	-	-	57
Allowance for impairment	112,712	237,040	-	349,752
Total allowance for impairment	988,556	3,384,317	2,935,970	7,308,843

42. Credit risk management (continued)

42.3 Expected credit losses (continued)

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

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balances with central banks (Note 5)	**247**	**-**	**-**	**-**	**247**
Deposits and balances due from banks (Note 6)	**45,726**	**4,236**	**-**	**-**	**49,962**
Investment securities (Note 9) (*)	**26,190**	**27,708**	**206,519**	**-**	**260,417**
Loans and advances to customers (Note 10)	**787,274**	**2,982,378**	**3,492,708**	**71,050**	**7,333,410**
Other assets (Note 13)	**8,217**	**1,410**	**8,230**	**1,425**	**19,282**
Letters of credit, guarantees and other commitments (Note 20)	**433,237**	**614,226**	**-**	**384,900**	**1,432,363**
Total allowance for impairment	**1,300,891**	**3,629,958**	**3,707,457**	**457,375**	**9,095,681**

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

Allocation of impairment allowance for the year ended December 31, 2018 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balances with central banks (Note 5)	228	-	-	228
Deposits and balances due from banks (Note 6)	32,037	2,290	-	34,327
Investment securities (Note 9) (*)	23,932	159,503	-	183,435
Loans and advances to customers (Note 10)	815,349	2,984,050	2,927,473	6,726,872
Other assets (Note 13)	4,298	1,434	8,497	14,229
Letters of credit, guarantees and other commitments (Note 20)	112,712	237,040	-	349,752
Total allowance for impairment	988,556	3,384,317	2,935,970	7,308,843

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

42. Credit risk management (continued)

42.3 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, 2019	851,912	2,987,774	2,935,970	-	6,775,656
Addition on business combinations	5,184	-	-	38,985	44,169
- Transfer from stage 1 to stage 2	(44,253)	44,253	-	-	-
- Transfer from stage 1 to stage 3	(56,757)	-	56,757	-	-
- Transfer from stage 2 to stage 1	114,947	(114,947)	-	-	-
- Transfer from stage 2 to stage 3	-	(540,828)	540,828	-	-
- Transfer from stage 3 to stage 1	531	-	(531)	-	-
- Transfer from stage 3 to stage 2	-	15,825	(15,825)	-	-
Other movements within the same stage	(65,069)	520,308	1,803,071	75,155	2,333,465
New financial assets originated/purchased	248,384	151,910	264,689	-	664,983
Financial assets that have been derecognised	(142,112)	(67,510)	(159,292)	-	(368,914)
Changes to methodologies, assumptions and risk parameters	(71,303)	(8,761)	(97)	-	(80,161)
Gross (release)/charge for the year	(15,632)	250	2,489,600	75,155	2,549,373
Recoveries	-	-	(234,525)	-	(234,525)
Net (release)/charge for the year	(15,632)	250	2,255,075	75,155	2,314,848
Net amounts written-off	-	-	(1,690,107)	(41,665)	(1,731,772)
Balance as at December 31, 2019	841,464	2,988,024	3,500,938	72,475	7,402,901
Debt instruments designated at FVTOCI					
Balance as at January 1, 2019	23,932	159,503	-	-	183,435
- Transfer from stage 1 to stage 2	(920)	920	-	-	-
- Transfer from stage 2 to stage 3	-	(129,919)	129,919	-	-
Other movements within the same stage	4,354	(131)	76,600	-	80,823
New financial assets originated/purchased	7,378	-	-	-	7,378
Financial assets that have been derecognised	(2,697)	-	-	-	(2,697)
Changes to methodologies, assumptions and risk parameters	(5,857)	(2,665)	-	-	(8,522)
Net charge/(release) for the year	2,258	(131,795)	206,519	-	76,982
Balance as at December 31, 2019	26,190	27,708	206,519	-	260,417
Commitments and contingent liabilities					
Balance as at January 1, 2019	112,712	237,040	-	-	349,752
Addition on business combinations	625,643	-	-	496,744	1,122,387
- Transfer from stage 1 to stage 2	(318,547)	318,547	-	-	-
- Transfer from stage 2 to stage 1	6,181	(6,181)	-	-	-
Other movements within the same stage	(13,564)	43,853		(111,844)	(81,555)
New financial assets originated/purchased	72,291	73,899	-	-	146,190
Financial assets that have been derecognised	(28,479)	(55,053)	-	-	(83,532)
Changes to methodologies, assumptions and risk parameters	(23,000)	2,121	-	-	(20,879)
Net (release)/charge for the year	(305,118)	377,186	-	(111,844)	(39,776)
Balance as at December 31, 2019	433,237	614,226	-	384,900	1,432,363

42. Credit risk management (continued)

42.3 Expected credit losses (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments carried at amortised cost				
Balance as at January 1, 2018	1,172,573	3,472,124	2,403,097	7,047,794
- Transfer from stage 1 to stage 2	(37,536)	37,536	-	-
- Transfer from stage 1 to stage 3	(184,443)	-	184,443	-
- Transfer from stage 2 to stage 1	179,053	(179,053)	-	-
- Transfer from stage 2 to stage 3	-	(575,368)	575,368	-
- Transfer from stage 3 to stage 1	945	-	(945)	-
- Transfer from stage 3 to stage 2	-	22,285	(22,285)	-
Other movements within the same stage	(181,553)	91,587	1,552,981	1,463,015
New financial assets originated/purchased	189,897	146,222	78,781	414,900
Financial assets that have been derecognised	(153,475)	(51,673)	(76,697)	(281,845)
Changes to methodologies, assumptions and risk parameters	(114,169)	24,114	(2,215)	(92,270)
Gross (release)/charge for the year	(301,281)	(484,350)	2,289,431	1,503,800
Recoveries	-	-	(218,089)	(218,089)
Net (release)/charge for the year	(301,281)	(484,350)	2,071,342	1,285,711
Discount unwind	(19,380)	-	-	(19,380)
Net amounts written-off	-	-	(1,538,469)	(1,538,469)
Balance as at December 31, 2018	851,912	2,987,774	2,935,970	6,775,656
Debt instruments designated at FVTOCI				
Balance as at January 1, 2018	19,106	186,930	-	206,036
- Transfer from stage 1 to stage 2	(396)	396	-	-
- Transfer from stage 2 to stage 1	7,485	(7,485)	-	-
Other movements within the same stage	1,804	(12,624)	-	(10,820)
New financial assets originated/purchased	3,166	-	-	3,166
Financial assets that have been derecognised	(3,632)	(2,954)	-	(6,586)
Changes to methodologies, assumptions and risk parameters	(3,601)	(4,760)	-	(8,361)
Net charge/(release) for the year	4,826	(27,427)	-	(22,601)
Balance as at December 31, 2018	23,932	159,503	-	183,435
Commitments and contingent liabilities				
Balance as at January 1, 2018	94,772	252,303	-	347,075
- Transfer from stage 1 to stage 2	(2,976)	2,976	-	-
- Transfer from stage 2 to stage 1	25,899	(25,899)	-	-
Other movements within the same stage	(29,220)	30,026	-	806
New financial assets originated/purchased	49,981	27,123	-	77,104
Financial assets that have been derecognised	(17,893)	(46,168)	-	(64,061)
Changes to methodologies, assumptions and risk parameters	(7,851)	(3,321)	-	(11,172)
Net charge/(release) for the year	17,940	(15,263)	-	2,677
Balance as at December 31, 2018	112,712	237,040	-	349,752

42. Credit risk management (continued)

42.4 Concentration of credit risk

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

(a) Credit risk concentration by geographical sector

	Domestic (UAE) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	USA AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2019								
Assets								
Balances with central banks, net	**22,350,082**	**138,029**	**515,860**	**70,767**	**-**	**-**	**-**	**23,074,738**
Deposits and balances due from banks, net	**8,007,700**	**2,099,518**	**1,819,849**	**4,149,957**	**4,941,037**	**41,365**	**2,005,548**	**23,064,974**
Derivative financial instruments	**2,517,614**	**52,462**	**-**	**3,422**	**3,999,654**	**-**	**216,565**	**6,789,717**
Investment securities - bonds	**33,894,947**	**19,170,347**	**2,914,351**	**9,210,571**	**3,689,693**	**1,067,911**	**2,669,055**	**72,616,875**
Loans and advances to customers, net	**235,521,008**	**4,566,708**	**4,873,654**	**2,160,415**	**492,784**	**130,939**	**2,271,818**	**250,017,326**
Other assets, net	**8,586,267**	**262,323**	**110,412**	**4,416,754**	**2,620,613**	**29,904**	**581,368**	**16,607,641**
Total	**310,877,618**	**26,289,387**	**10,234,126**	**20,011,886**	**15,743,781**	**1,270,119**	**7,744,354**	**392,171,271**
Commitment and contingent liabilities	**74,053,799**	**2,252,836**	**1,349,318**	**4,888,708**	**3,302,476**	**1,009,258**	**859,290**	**87,715,685**
As at December 31, 2018								
Assets								
Balances with central banks, net	18,036,339	-	-	54,618	-	-	-	18,090,957
Deposits and balances due from banks, net	8,728,782	1,458,188	372,966	2,968,808	4,221,431	463,289	1,413,612	19,627,076
Reverse-repo placements	2,020,150	-	-	-	183,650	-	-	2,203,800
Derivative financial instruments	1,750,531	12,007	-	12,437	2,535,310	-	136,962	4,447,247
Investment securities - bonds	23,193,284	11,154,533	234,475	9,023,304	2,963,169	4,373,178	1,018,212	51,960,155
Loans and advances to customers, net	156,795,963	3,505,739	1,113,391	2,488,948	410,908	88,384	2,022,429	166,425,762
Other assets, net	6,651,974	572,509	14,238	2,562,229	1,372,182	2,018,871	54,980	13,246,983
Total	217,177,023	16,702,976	1,735,070	17,110,344	11,686,650	6,943,722	4,646,195	276,001,980
Commitment and contingent liabilities	40,512,108	1,762,921	109,680	2,668,687	1,978,526	1,061,262	431,676	48,524,860

42. Credit risk management (continued)

42.4 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, 2019			As at December 31, 2018		
	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000
Economic activity sector						
Agriculture	**203,757**	**51,745**	**255,502**	206,858	-	206,858
Energy	**1,645,117**	**1,838,315**	**3,483,432**	984,371	635,136	1,619,507
Trading	**8,698,087**	**1,712,628**	**10,410,715**	5,159,486	749,157	5,908,643
Real estate investment	**70,341,764**	**1,232,939**	**71,574,703**	48,969,942	1,725,242	50,695,184
Hospitality	**10,866,285**	**514,118**	**11,380,403**	8,691,000	69,730	8,760,730
Transport and communication	**2,841,693**	**1,849,401**	**4,691,094**	1,419,435	1,041,719	2,461,154
Personal	**61,864,156**	**1,173,687**	**63,037,843**	36,582,222	111,637	36,693,859
Government & public sector entities	**51,019,692**	**502,210**	**51,521,902**	35,260,180	88,955	35,349,135
Financial institutions (*)	**14,736,256**	**3,665,901**	**18,402,157**	11,055,743	3,379,204	14,434,947
Manufacturing	**5,274,291**	**1,983,287**	**7,257,578**	2,681,505	2,143,409	4,824,914
Services	**5,426,309**	**299,124**	**5,725,433**	3,141,602	284,631	3,426,233
Others	**9,311,793**	**298,181**	**9,609,974**	8,719,723	51,747	8,771,470
	242,229,200	**15,121,536**	**257,350,736**	162,872,067	10,280,567	173,152,634
Less: Allowance for impairment			**(7,333,410)**			(6,726,872)
Total loans and advances to customers, net			**250,017,326**			166,425,762

(*) includes investment companies

As at reporting date, the 20 largest customer loan exposures constitute 27.58% of the gross loans and advances to customers (December 31, 2018 – 36.58%).

The industry sector composition of other exposures is as follows:

	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
As at December 31, 2019						
Assets						
Balances with central banks, net	-	-	-	**23,074,738**	-	**23,074,738**
Deposits and balances due from banks, net	-	-	-	-	**23,064,974**	**23,064,974**
Derivative financial instruments	**624,362**	**231,344**	**821,230**	**430,692**	**4,682,089**	**6,789,717**
Investment securities - bonds	**2,078,157**	-	**16,685,917**	**41,273,292**	**12,579,509**	**72,616,875**
Other assets, net	**12,730,053**	**600,807**	**390,354**	**280,006**	**2,606,421**	**16,607,641**
Total	**15,432,572**	**832,151**	**17,897,501**	**65,058,728**	**42,932,993**	**142,153,945**
Commitment and contingent liabilities	**54,322,995**	**2,227,179**	**15,776,875**	**2,664,020**	**12,724,616**	**87,715,685**
As at December 31, 2018						
Assets						
Balances with central banks, net	-	-	-	18,090,957	-	18,090,957
Deposits and balances due from banks, net	-	-	-	-	19,627,076	19,627,076
Reverse-repo placements	-	-	-	-	2,203,800	2,203,800
Derivative financial instruments	961,552	173,120	287,175	9,595	3,015,805	4,447,247
Investment securities - bonds	1,050,819	-	12,245,954	30,195,860	8,467,522	51,960,155
Other assets, net	10,325,066	391,551	1,227,335	259,811	1,043,220	13,246,983
Total	12,337,437	564,671	13,760,464	48,556,223	34,357,423	109,576,218
Commitment and contingent liabilities	29,072,100	1,878,361	7,309,165	2,541,071	7,724,163	48,524,860

42. Credit risk management (continued)

42.5 Credit risk measurement and mitigation policies

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

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

Collateral

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

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

The estimated fair value of collateral and other security enhancements held against various credit risk exposures for the year ended December 31, 2019 was AED 247,161,187 thousand (December 31, 2018 - AED 178,273,983 thousand).

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

Write-off

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

Reversal of impairment

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

42. Credit risk management (continued)

42.5 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:

	2019 AED'000	2018 AED'000
Internal risk grades		
Grades 1 to 4	**5,160,691**	3,639,422
Grades 5 to 6	**1,536,539**	776,407
Grade 7	**74,873**	-
Unrated	**17,614**	31,418
	6,789,717	4,447,247

Master netting arrangements

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

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

Derivative related credit risk

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

42. Credit risk management (continued)

42.5 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 satge 2. In the case of commitments to lend, customers and counterparties will be subject to the samecredit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

43. Interest rate risk framework, measurement and monitoring

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

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

Financial assets and liabilities exposed to interest rate risk are assets and liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Group's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, and borrowings fall under this category.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity investments, cash and balances with central banks excluding certificate of deposits and reverse repo.

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

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

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

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks, net	3,916,366	925,000	-	-	-	20,063,600	24,904,966
Deposits and balances due from banks, net	14,339,262	4,564,997	3,009,306	-	-	1,151,409	23,064,974
Derivative financial instruments	5,909,711	50,510	-	-	-	829,496	6,789,717
Investment securities	10,386,061	3,775,714	5,110,890	23,590,702	29,753,508	823,238	73,440,113
Loans and advances to customers, net	190,644,741	25,372,562	7,348,137	8,747,036	26,541,893	(8,637,043)	250,017,326
Investment in associates	-	-	-	-	-	407,768	407,768
Investment properties	-	-	-	-	-	1,693,707	1,693,707
Other assets, net	-	-	-	-	-	16,750,208	16,750,208
Property and equipment, net	-	-	-	-	-	2,197,571	2,197,571
Intangible assets, net	-	-	-	-	-	5,332,497	5,332,497
Assets held for sale	-	-	-	-	-	535,830	535,830
Total assets	225,196,141	34,688,783	15,468,333	32,337,738	56,295,401	41,148,281	405,134,677
Liabilities and equity							
Due to banks	3,186,219	109,821	36,730	660,911	-	1,739,098	5,732,779
Derivative financial instruments	6,179,120	35,257	-	-	-	735,514	6,949,891
Deposits from customers	139,863,952	32,357,423	25,673,762	3,222,513	231,486	60,744,646	262,093,782
Euro commercial paper	1,382,071	462,732	217,535	-	-	-	2,062,338
Borrowings	15,825,363	371,360	784,949	4,215,790	30,684,592	-	51,882,054
Other liabilities	-	-	-	-	-	20,302,794	20,302,794
Liabilities related to assets held for sale	-	-	-	-	-	413,395	413,395
Equity	-	-	-	-	-	55,697,644	55,697,644
Total liabilities and equity	166,436,725	33,336,593	26,712,976	8,099,214	30,916,078	139,633,091	405,134,677
On-balance sheet gap	58,759,416	1,352,190	(11,244,643)	24,238,524	25,379,323	(98,484,810)	-
Off-balance sheet gap	7,782,963	(332,626)	(3,067,581)	(8,639,002)	4,256,246	-	-
Total interest rate sensitivity gap	66,542,379	1,019,564	(14,312,224)	15,599,522	29,635,569	(98,484,810)	-
Cumulative interest rate sensitivity gap	66,542,379	67,561,943	53,249,719	68,849,241	98,484,810	-	-

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

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

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2018 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks, net	2,763,173	918,250	-	-	-	15,908,534	19,589,957
Deposits and balances due from banks, net	10,659,141	4,317,512	2,484,940	275,475	-	1,890,008	19,627,076
Reverse-repo placements	2,203,800	-	-	-	-	-	2,203,800
Trading securities	60,134	-	-	-	-	-	60,134
Derivative financial instruments	3,511,217	7,116	2,594	-	-	926,320	4,447,247
Investment securities	14,740,064	1,548,855	2,128,572	12,982,183	20,560,481	402,079	52,362,234
Loans and advances to customers, net	124,013,930	8,233,148	2,565,657	10,697,221	28,377,770	(7,461,964)	166,425,762
Investment in associate	-	-	-	-	-	205,158	205,158
Investment properties	-	-	-	-	-	576,671	576,671
Other assets, net	18,585	-	-	-	-	13,312,309	13,330,894
Property and equipment, net	-	-	-	-	-	982,605	982,605
Intangible asset	-	-	-	-	-	18,800	18,800
Total assets	157,970,044	15,024,881	7,181,763	23,954,879	48,938,251	26,760,520	279,830,338
Liabilities and equity							
Due to banks	989,967	168,993	380,782	660,785	-	870,881	3,071,408
Derivative financial instruments	4,955,271	32,679	-	-	-	707,961	5,695,911
Deposits from customers	85,911,960	18,507,486	29,704,071	2,588,263	56,035	39,886,042	176,653,857
Euro commercial paper	636,418	2,202,480	440,404	-	-	-	3,279,302
Borrowings	16,710,361	1,016,077	2,619,384	3,728,912	18,953,015	-	43,027,749
Other liabilities	-	-	-	-	-	15,296,568	15,296,568
Equity	-	-	-	-	-	32,805,543	32,805,543
Total liabilities and equity	109,203,977	21,927,715	33,144,641	6,977,960	19,009,050	89,566,995	279,830,338
On-balance sheet gap	48,766,067	(6,902,834)	(25,962,878)	16,976,919	29,929,201	(62,806,475)	-
Off-balance sheet gap	(7,811,291)	688,926	2,103,608	(1,043,055)	6,061,812	-	-
Total interest rate sensitivity gap	40,954,776	(6,213,908)	(23,859,270)	15,933,864	35,991,013	(62,806,475)	-
Cumulative interest rate sensitivity gap	40,954,776	34,740,868	10,881,598	26,815,462	62,806,475	-	-

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

44. Liquidity risk framework, measurement and monitoring

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

Liquidity risk management process

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

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

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

The Group has set an internal ceiling on the ADR ratio that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter-bank placements with a remaining life of more than three months; and
- the amount of stable resource comprising of free own funds with a remaining life of more than six months, stable customer deposits and standby liquidity facilities.

The above is in line with the definition of Advances to Stable Resources ratio as prescribed by the Central Bank of the UAE.

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

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

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

Liquidity risk management process (continued)

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

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

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

Tools for liquidity management

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

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

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

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

- Overdraft facility against its cash reserves at overnight repo rate plus a spread of 150 basis points;
- Overdraft facility beyond the cash reserves at overnight repo rate plus a spread of 300 basis points; and
- Repo facility against CDs at overnight repo rate.

The Bank has access to Marginal Lending Facility (MLF) initiated by the Central Bank of the UAE effective from March 2014. Under MLF, Bank can borrow from UAE Central Bank by posting eligible collateral. The Bank periodically tests MLF facility with the Central Bank for its operational readiness.

None of the above Central Bank facilities were utilised and outstanding at the end of the year.

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

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

Tools for liquidity management (continued)

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

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

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

44. 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	30,597,579	73,440,113
Loans and advances to customers, net	43,956,474	5,191,108	7,122,147	45,665,622	148,081,975	250,017,326
Investment in associates	-	-	-	-	407,768	407,768
Investment properties	-	-	-	1,693,707	-	1,693,707
Other assets, net	6,469,945	1,214,600	8,832,632	91,168	141,863	16,750,208
Property and equipment, net	-	-	-	-	2,197,571	2,197,571
Intangible assets, net	-	-	-	-	5,332,497	5,332,497
Assets held for sale	535,830	-	-	-	-	535,830
Total assets	99,794,140	16,048,849	28,486,180	73,131,315	187,674,193	405,134,677
Liabilities and equity						
Due to banks	4,925,317	109,821	36,730	660,911	-	5,732,779
Derivative financial instruments	5,480,266	13,354	84,380	305,823	1,066,068	6,949,891
Deposits from customers	197,772,261	32,773,977	26,359,616	4,074,804	1,113,124	262,093,782
Euro commercial paper	1,382,071	462,732	217,535	-	-	2,062,338
Borrowings	4,180,133	416,678	3,160,661	9,137,546	34,987,036	51,882,054
Other liabilities	6,469,937	1,188,275	9,018,310	315,229	3,311,043	20,302,794
Liabilities related to assets held for sale	413,395	-	-	-	-	413,395
Equity	-	-	-	-	55,697,644	55,697,644
Total liabilities and equity	220,623,380	34,964,837	38,877,232	14,494,313	96,174,915	405,134,677
Balance sheet liquidity gap	(120,829,240)	(18,915,988)	(10,391,052)	58,637,002	91,499,278	-
Off balance sheet						
Financial guarantees and irrevocable commitments	1,908,054	983,050	2,052,972	12,028,727	6,054,677	23,027,480

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

The maturity profile of the assets and liabilities as at December 31, 2018 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	18,671,707	918,250	-	-	-	19,589,957
Deposits and balances due from banks, net	10,761,195	4,387,546	2,812,860	1,665,475	-	19,627,076
Reverse-repo placements	2,203,800	-	-	-	-	2,203,800
Trading securities	60,134	-	-	-	-	60,134
Derivative financial instruments	4,086,359	12,830	17,190	142,421	188,447	4,447,247
Investment securities	6,246,853	1,915,841	2,531,630	20,644,319	21,023,591	52,362,234
Loans and advances to customers, net	23,176,952	2,576,571	1,914,533	28,000,357	110,757,349	166,425,762
Investment in associate	-	-	-	-	205,158	205,158
Investment properties	-	-	-	576,671	-	576,671
Other assets, net	6,441,454	754,338	6,134,673	13	416	13,330,894
Property and equipment, net	-	-	-	-	982,605	982,605
Intangible asset	-	-	-	-	18,800	18,800
Total assets	71,648,454	10,565,376	13,410,886	51,029,256	133,176,366	279,830,338
Liabilities and equity						
Due to banks	1,860,848	168,993	380,782	660,785	-	3,071,408
Derivative financial instruments	3,834,454	244,774	54,684	206,712	1,355,287	5,695,911
Deposits from customers	125,393,295	18,511,910	29,727,340	2,588,263	433,049	176,653,857
Euro commercial paper	636,418	2,202,480	440,404	-	-	3,279,302
Borrowings	3,127,070	813,744	7,191,616	10,660,266	21,235,053	43,027,749
Other liabilities	7,827,616	535,765	6,209,983	10,536	712,668	15,296,568
Equity	-	-	-	-	32,805,543	32,805,543
Total liabilities and equity	142,679,701	22,477,666	44,004,809	14,126,562	56,541,600	279,830,338
Balance sheet liquidity gap	(71,031,247)	(11,912,290)	(30,593,923)	36,902,694	76,634,766	-
Off balance sheet						
Financial guarantees and irrevocable commitments	1,123,474	3,168,480	2,222,987	6,371,699	4,067,004	16,953,644

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

The table below summarises the maturity profile of the Group's financial liabilities as at December 31, 2019 and 2018 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. Derivative financial instruments held for trading are included in "less than 3 months" column at their fair value. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Carrying Amount AED'000	Gross outflow AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
As at December 31, 2019							
Due to banks	**5,732,779**	**5,821,738**	**4,954,314**	**112,545**	**37,567**	**717,312**	**-**
Derivative financial instruments	**6,949,891**	**6,582,921**	**5,457,296**	**132,010**	**58,207**	**497,449**	**437,959**
Deposits from customers	**262,093,782**	**264,472,376**	**199,405,090**	**33,060,680**	**26,846,726**	**4,028,523**	**1,131,357**
Euro commercial paper	**2,062,338**	**2,077,702**	**1,394,874**	**464,209**	**218,619**	**-**	**-**
Borrowings	**51,882,054**	**107,122,345**	**4,536,900**	**600,768**	**3,601,391**	**10,650,433**	**87,732,853**
Total financial liabilities	**328,720,844**	**386,077,082**	**215,748,474**	**34,370,212**	**30,762,510**	**15,893,717**	**89,302,169**
As at December 31, 2018							
Due to banks	3,071,408	3,202,619	1,894,629	173,046	393,585	741,359	-
Derivative financial instruments	5,695,911	3,933,966	3,599,517	393,614	25,431	(1,614)	(82,982)
Deposits from customers	176,653,857	179,220,417	126,742,475	18,725,235	30,562,044	2,749,830	440,833
Euro commercial paper	3,279,302	3,303,973	639,414	2,222,137	442,422	-	-
Borrowings	43,027,749	79,408,470	3,508,161	980,085	7,690,488	11,700,475	55,529,261
Total financial liabilities	231,728,227	269,069,445	136,384,196	22,494,117	39,113,970	15,190,050	55,887,112

45. Market risk framework, measurement and management

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

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

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

Market risk arising from trading book

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

Market risk arising from banking book

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

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

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

Risk identification and classification

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

Management of market risk

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

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

Management of market risk (continued)

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

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

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

Risk measurement

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

Statistical risk measures

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

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

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

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

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

Daily value at risk (VaR at 99% - 1 day)	**2019 AED'000**	2018 AED'000
Overall risk	**(5,136)**	(5,496)
Average VaR	**(4,843)**	(6,621)

45. 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.

Currency risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. The Board of Directors has set limits on delta notional positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. As at December 31, 2019, the Group's net delta notional positions in major currencies are as below:

	Net currency position (short)/long	
	2019	2018(*)
Currency	**AED'000**	AED'000
USD	**31,792,775**	(16,154,265)
EUR	**64,011**	(16,109)
GBP	**1,413**	(49,629)
JPY	**19,621**	22,662
INR	**211,128**	224,437
SAR	**(4,448,838)**	(466,225)
EGP	**492,841**	267
AUD	**(52,830)**	(15,207)

(*) In 2018, net currency positions were presented on gross notional basis. The above table is computed based on net delta notional positions.

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

	2019		2018	
	+5%	**-5%**	+5%	-5%
Price shock in percentage	**AED'000**	**AED'000**	AED'000	AED'000
USD-AUD	**(2,578)**	**5,097**	(207)	1,689
EUR-USD	**(6,770)**	**9,120**	(15,493)	24,965
GBP -USD	**2,197**	**(2,147)**	1,182	(914)
USD-JPY	**103**	**(122)**	1,474	8
USD-INR	**(11,769)**	**13,143**	(13,762)	6,991
USD-EGP	**(23,384)**	**25,846**	(13)	14
USD-SAR	**105,725**	**(508,562)**	(13,977)	(64,104)

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

Interest rate risk - trading book

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

Relative instantaneous rate move shift for all tenors:

	2019		2018	
	+25bps AED'000	**-25bps AED'000**	+25bps AED'000	-25bps AED'000
AED	**(29,850)**	**31,783**	(3,941)	10,713
USD	**3,059**	**(4,953)**	(110)	466

Interest rate risk – non trading book

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

	2019		2018	
	+25 bps AED'000	**-25 bps AED'000**	+25 bps AED'000	-25 bps AED'000
Sensitivity of net interest income	**70,293**	**(62,094)**	107,807	(107,807)

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

46. Operational risk management

Overview

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

The objective of the Group's operational risk management is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with our defined risk appetite.

Key developments in 2019

During 2019, the Group has enhanced the Operational Risk Management Framework ('ORMF'), Operational Risk Management Policy and updated standard operating procedures.

The new ORMF provides an end-to-end view of non-financial risks, enhancing focus on the risks that are critical to achieving the Group's strategic objectives and associated controls. It provides a platform to drive forward-looking risk awareness and assist management focus. It also helps the organisation understand the level of risk it is willing to accept.

The Group focused on the use of the three lines of defence model to reinforce individual accountability. It sets our roles and responsibilities for managing operational risk on a daily basis. All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model.

46. Operational risk management (continued)

Three lines of defence

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

The three lines of defence are summarised below:

The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.

The second line of defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence on effective risk management.

The third line of defence is the Group's Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Group's risk management framework and control governance process.

Governance and structure

The ORMF defines minimum standards and processes and the governance structure for the management of operational risk and internal controls in the Group's businesses and support functions. The ORMF has been codified in policies and supplemented with detailed standard operating procedures. Policies describe the Group's approach in identifying, assessing, monitoring and controlling operational risk and give guidance on mitigating action to be taken when weaknesses are identified.

The Group has a dedicated Group Operational Risk Management function. It is responsible for leading the embedding of the ORMF and assuring adherence to associated policies and processes across the first and second lines of defence. It supports the Group Chief Risk Officer and the Operational Risk Working Group which meets bi-monthly to discuss key risk issues and review implementation of the ORMF. The Group Operational Risk Management function is also responsible for preparation of operational risk reporting at Group level including reports for consideration by the Operational Risk Working Group and Strategic Board Risk and Credit Committee (SBRCC). A formal governance structure provides oversight of the function's management.

Key risk management processes

Business managers throughout the Group are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

Operational risk and control self-assessments, along with issue and action plans, are identified and maintained by business units. Business and functional management monitor the progress of documented action plans to address any shortcomings. To help ensure that operational risk losses are consistently reported and monitored at Group level, all Group companies are required to report individual losses when the gross loss is expected to exceed AED 1,000, and to aggregate all other operational risk losses as per the standard operating procedures. Losses are reported and escalated to the appropriate governance structures on a monthly and ad-hoc basis in line with their materiality.

47. Trust activities

As at December 31, 2019, the net asset value of the funds under the management of the Group amounted to AED 2,981,303 thousand (December 31, 2018 – AED 2,504,545 thousand).

48. Subsidiaries

The following is the list of subsidiaries of the Bank:

		Incorporation		
Name of subsidiary	**Effective Ownership interest**	**Year**	**Country**	**Principal activities**
ADCB Securities LLC	100%	2005	UAE	Agent in trading of financial instruments and stocks.
Abu Dhabi Commercial Properties LLC	100%	2005	UAE	Real estate property management and advisory services.
Abu Dhabi Commercial Finance Solutions LLC	100%	2005	UAE	Financial investments.
Abu Dhabi Commercial Investment Services LLC	100%	2005	UAE	Financial investments.
Kinetic Infrastructure Development LLC	100%	2006	UAE	Financial investments.
Abu Dhabi Commercial Property Development LLC (1)	100%	2006	UAE	Property development.
Abu Dhabi Commercial Engineering Services LLC	100%	2007	UAE	Engineering services.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
ADCB Markets (Cayman) Limited (Formerly known as ADCB Holdings (Cayman) Limited)	100%	2008	Cayman Islands	Treasury related activities.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of Man	Trust activities.
Abu Dhabi Commercial Bank (UK Representative Office) Limited	100%	2008	United Kingdom	UK representative office and process service agent.
ITMAM Services FZ LLC (Formerly known as ADCB Services FZ LLC)	100%	2010	UAE	Transaction processing and back office support for the Group.
AD NAC Ventures WLL	99.75%	2012	Bahrain	Trust activities.
ITMAM Services LLC	100%	2013	UAE	Transaction processing and back office support for the Group.
Omicron Capital	100%	2014	Cayman Islands	Treasury financing activities.
ADCB Structuring I (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.
ADCB Structuring II (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.
Common Services SARL	100%	2018	Luxembourg	Acquisition, holding, management and disposal of participations and interests.
ADCB Asset Management Limited	100%	2018	UAE	Wealth management and private banking.
Al Wifaq Finance Company PrJSC	89.2%	2006	UAE	Shari’a compliant Islamic finance products and services.
Al Wifaq Properties LLC	89.2%	2015	UAE	Property management services.
Union Brokerage LLC	100%	2002	UAE	Agent in trading of financial instruments and stocks.
Injaz Marketing Management LLC	99.0%	2007	UAE	Marketing management services.
Union National Bank – Egypt	96.6%	1981	Egypt	Commercial banking services.
Al Hilal Bank PJSC	100%	2007	UAE	Islamic banking activities.
Al Hilal Islamic Bank JSC	100%	2010	Kazakhstan	Islamic banking activities.
Al Hilal Leasing LLP	100%	2011	Kazakhstan	Shari’a compliant leasing operations.
Al Hilal Takaful PSC (3)	100%	2008	UAE	Shari’a compliant general insurance services.
Al Hilal Auto LLC (4)	100%	2009	UAE	Shari’a compliant trading in new and used cars.
Al Hilal Al Mariah Development LLC (2)	100%	2012	UAE	Real estate development.
AHB Sukuk Company Limited	Controlling interest	2011	Cayman Islands	Treasury financing activities.

(1) dormant (2) under liquidation (3) held for sale (4) discontinued operations

The Group does not have any subsidiary with material non-controlling interests.

49. Capital adequacy ratio and capital management

Capital management process

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of the United Arab Emirates;
- to safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of the United Arab Emirates.

The UAE Central Bank vide its circular No. 60/2017 dated March 2, 2017 informed all the Banks operating in the UAE to comply with Basel III Capital Adequacy regulations effective from February 1, 2017. The regulations were issued to ensure compliance with Basel III Capital Standard set out by the Basel Committee on Banking Supervision (BCBS).

For credit and market risk, the Central Bank of the United Arab Emirates has issued guidelines for implementation of Standardised approach and banks are required to comply and report under Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank of the United Arab Emirates has given banks the option to use the Basic Indicators approach or the Standardised approach and the Group has chosen to use the Standardised approach.

The Bank currently uses the approach defined below for Pillar 1 reporting:

Credit risk: Standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: For the regulatory market risk capital requirement, the Group uses the standardised approach.

Operational risk: Basel III includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Group has adopted the standardised approach in determining the operational risk capital requirements.

The Group also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Group of its risk profile, approaches to assess and measure various material risks, capital planning under regular and stress scenarios.

The Group's capital management is driven by long/short term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Group seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

49. 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 AT 1 capital (paragraph 55 of Basel III Accord).

Tier 2 capital includes collective provisions per Basel guidelines and UAE Central Bank rules, perpetual equity instruments issued by the bank or its subsidiaries and not included in Tier 1 and their premium and instruments eligible for inclusion in Tier II capital such as hybrid (debt/equity) capital instruments and subordinated term loan.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital and the Group's business strategy, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance functions and is subject to review by the ALCO as appropriate.

49. 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 2019 AED'000	As at December 31 2018 AED'000
Common equity tier 1 (CET1) capital		
Share capital (Note 21)	**6,957,379**	5,198,231
Share premium	**17,878,882**	2,419,999
Other reserves (Note 22)	**8,649,013**	7,659,349
Retained earnings	**15,403,049**	14,010,929
Non-controlling interests	**59,257**	-
Regulatory deductions and adjustments		
Intangible assets, net (Note 15)	**(5,332,497)**	(18,800)
Cash flow hedge reserve (Note 22)	**10,227**	(148,778)
Employee's incentive plan shares, net (Note 22)	**(30,105)**	(41,758)
Revaluation reserve of investments designated at FVTOCI (Note 22)	**277,328**	(609,542)
Total CET1 capital	**43,872,533**	28,469,630
Additional tier 1 (AT1) capital		
Capital notes (Note 25)	**6,000,000**	4,000,000
Total AT1 capital	**6,000,000**	4,000,000
Total tier 1 capital	**49,872,533**	32,469,630
Tier 2 capital		
Eligible general provision	**3,649,904**	2,359,353
Subordinated notes (Note 19)	**1,226,060**	1,841,730
Total tier 2 capital	**4,875,964**	4,201,083
Total regulatory capital	**54,748,497**	36,670,713
Risk-weighted assets		
Credit risk	**291,992,334**	188,748,218
Market risk	**8,170,213**	8,396,389
Operational risk	**24,027,523**	15,262,739
Total risk-weighted assets	**324,190,070**	212,407,346
CET1 ratio	**13.53%**	13.40%
AT1 ratio	**1.85%**	1.88%
Tier 1 ratio	**15.38%**	15.28%
Tier 2 ratio	**1.51%**	1.98%
Capital adequacy ratio	**16.89%**	17.26%

The above capital adequacy ratios have been calculated in line with Basel guidelines and in accordance with IAS 10 – Events after the Reporting Period which does not allow proposed dividend to be recognized as a liability. On January 17, 2018 Central Bank of the UAE issued guidelines requiring banks to deduct proposed dividends from retained earnings while calculating the capital adequacy ratio. In line with this regulation, the Bank's capital adequacy ratios after deducting the proposed dividends will be as below:

	2019	2018
CET1 ratio	**12.72%**	12.27%
Tier 1 ratio	**14.57%**	14.16%
Capital adequacy ratio	**16.07%**	16.14%

49. 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 February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

To achieve broader macro-prudential goal of protecting the banking sector from the periods of excess aggregate credit growth and in addition to the capital conservation buffer (CCB) requirement, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCyB requirement will vary between 0% - 2.5% of risk weighted assets and will be communicated by the Central Bank with adequate notice period. Further, to reduce risks related to the failure of domestic systemically relevant institutions, the Central Bank of the UAE has introduced domestic systematically important banks (D-SIB) buffer of 0.5% for ADCB.

To enable banks to meet the new standards, the notification contains transitional arrangements commencing January 1, 2017 through January 1, 2019. Transitional requirements result in a phase-in of a capital conservation and D-SIB buffers over 3 years. As of January 2019, the banks will be required to meet new minimum requirements related to risk-weighted assets as mentioned below:

Transitional arrangement	**2019**	2018
CET1 including buffers		
- CET1	**7.00%**	7.00%
- CCB	**2.50%**	1.88%
- D-SIB buffer	**0.50%**	0.38%
CET1 including buffers	**10.00%**	9.25%
Tier 1	**11.50%**	10.75%
Minimum capital requirement	**13.50%**	12.75%

Common Equity Tier 1 (CET1) capital resources

(a) Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of treasury shares. These instruments confer a share of ownership in the Bank, and carry no obligations.

(b) Statutory and Legal reserves:

(i) Statutory reserve: As required by Article 239 of the UAE Federal Law No. (2) of 2015, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly, an amount of AED 478,968 thousand has been transferred to statutory reserve during the year (December 31, 2018 – AED Nil). The statutory reserve is not available for distribution.

(ii) Legal reserve: In accordance with the Article 82 of Union Law No. 10 of 1980 and the Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly, an amount of AED 478,968 thousand has been transferred to legal reserve during the year (December 31, 2018 – AED Nil). The legal reserve is not available for distribution.

49. Capital adequacy and capital management (continued)

Common Equity Tier 1 (CET1) capital resources (continued)

(c) General and Contingency reserves:

(i) General reserve: In accordance with the Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

(ii) Contingency reserve: The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

(iii) Retained earnings which represent the cumulative profits not distributed to shareholders, and other eligible reserves.

(d) Regulatory deductions and adjustments:

(i) Goodwill and other intangible assets.

(ii) Cash flow hedge reserve: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. However, it is limited to 45% if the balance is positive.

(iii) Employees' incentive plan shares: The Bank grants equity-settled share-based payments to employees. These shares are acquired by the Bank for its employees and are deducted from capital.

(iv) Revaluation reserve of investments designated at FVTOCI: This includes the cumulative net change in the fair value of investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive.

Additional Tier 1 (AT1) capital resources

(a) Capital notes: In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to the ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"). The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank.

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

Tier 2 capital resources

(a) Collective impairment on loans and advances limited to 1.25% of credit risk-weighted assets.

(b) Eligible subordinated notes (Note 19).

50. Social contributions

The Group made the following social contributions during the year:

	2019 AED'000	2018 AED'000
Donations	**2,132**	1,497
Sponsorships	**13,390**	6,998
Total social contributions	**15,522**	8,495

51. Legal proceedings

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial information if disposed unfavourably.

52. Business combinations

Merger with Union National Bank PJSC - On May 1, 2019, Union National Bank PJSC (or "UNB") merged with Abu Dhabi Commercial Bank PJSC in a stock transaction. UNB was a banking institution headquartered in Abu Dhabi with operations in UAE, Egypt, Kuwait, Qatar and China. Under the terms of the agreement, shareholders of UNB received 0.5966 ordinary shares of ADCB for each ordinary share of UNB. ADCB issued 1,641,501,087 ordinary shares that had a total fair value of AED 16,218,031 thousand based on the closing market price of AED 9.88 per share on April 30, 2019. UNB shares were delisted from Abu Dhabi Securities Exchange subsequent to the merger.

Acquisition of Al Hilal Bank PJSC - On May 1, 2019, ADCB and UNB as a merged entity completed its 100% acquisition of Al Hilal Bank PJSC (or "AHB") at a consideration of AED 1,000,000 thousand. AHB is a banking institution headquartered in Abu Dhabi with operations in UAE and Kazakhstan.

The merger and acquisition constituted business combination under common control. The Group sought and received fairness opinions from two investment banks of international repute, who opined that the aforementioned exchange ratio for merger with UNB and consideration for acquisition of AHB are fair, from a financial point of view, to the shareholders of the banks.

The merger and acquisition has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair value on the acquisition date. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and may require adjustments, which can be revisited for up to a year following the merger and acquisition.

52. 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 preliminary fair values at the acquisition date. The computation of the purchase consideration and its allocation to the net assets of UNB and AHB – based on their respective fair values as of May 1, 2019 – and the resulting goodwill is presented below. The allocation of the purchase price may be modified within a period of twelve months from the date of business combination, as more information is obtained about the fair value of assets acquired and liabilities assumed.

(in AED 000, except per share amount)	UNB	AHB
Purchase consideration		
Union National Bank PJSC ordinary shares ('000) (i)	2,751,427	
Exchange ratio (ii)	0.5966	
ADCB ordinary shares issued to UNB shareholders ('000) (i)*(ii)	1,641,501	
April 30, 2019 closing price of ADCB ordinary share	AED 9.88	
	16,218,031	
117,647,058 ADCB ordinary shares issued to AHB shareholder at a conversion price of AED 8.50 per share		1,000,000
Total purchase consideration (a)	**16,218,031**	**1,000,000**
Assets acquired and liabilities assumed		
Assets		
Cash and balances with central banks	9,260,404	3,359,142
Deposits and balances due from banks	2,253,640	3,174,981
Derivative financial instruments	213,240	5,198
Investment securities	17,147,692	3,300,842
Loans and advances to customers	65,804,971	18,589,124
Investment in associates	103,969	93,886
Investment properties	1,119,449	61,350
Other assets	1,709,566	503,518
Property and equipment	538,777	549,590
Intangible assets	562,000	223,000
Assets held for sale	-	257,899
Total assets (b)	**98,713,708**	**30,118,530**
Liabilities		
Due to banks	3,827,597	244,979
Derivative financial instruments	153,121	34,980
Deposits from customers	72,245,927	23,055,240
Borrowings	5,146,658	3,005,769
Other liabilities	3,181,994	1,102,601
Liabilities related to assets held for sale	-	316,930
	84,555,297	**27,760,499**
Tier I capital notes	2,000,000	1,836,500
Non-controlling interests	54,783	-
Total liabilities (c)	**86,610,080**	**29,596,999**
Total identifiable net assets at preliminary fair value (d) = (b) – (c)	**12,103,628**	**521,531**
Goodwill arising on business combinations (a) – (d)	**4,114,403**	**478,469**

52. Business combinations (continued)

Purchase consideration and net identifiable assets acquired and liabilities assumed (continued)

The goodwill is attributable mainly to the synergies expected to be achieved from integration of UNB and AHB into the Group.

The Group is in the process of undertaking comprehensive purchase price allocation which is expected to complete within twelve months from the date of business combinations. This may result in different values being attributed to the assets, liabilities and contingent liabilities acquired, and hence, change in the goodwill.

Accounting policy choice for non-controlling interests

The Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Purchase consideration - cash inflow

	AED'000
Cash and cash equivalent acquired	**11,037,392**
Purchase consideration paid in cash	-
Net Inflow of Cash – investing activities	**11,037,392**

Unaudited pro-forma combined financial statement

From the date of merger, UNB contributed AED 2,411,826 thousand to total operating income and AED 1,150,468 thousand to profit before tax from continuing operations of the Group.

Similarly, AHB contributed AED 787,286 thousand to total operating income and AED 372,669 thousand to profit before tax from continuing operations of the Group from the date of acquisition.

If the combinations had taken place at the beginning of the year, total operating income from continuing operations would have been AED 13,211,961 thousand and profit before tax from continuing operations for the Group would have been AED 5,345,037 thousand.

In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if acquisition had occurred on January 1, 2019.

Business combination related costs

The Group incurred integration and transaction costs of AED 294,321 thousand mainly comprising of external legal fees and due diligence costs. These costs have been included in 'operating expenses' in the consolidated income statement.