Abu Dhabi Commercial Bank PJSC

Review report and condensed consolidated interim financial information for the six month period ended June 30, 2020

بنك أبوظبي التجاري
ADCB

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF ABU DHABI COMMERCIAL BANK PJSC

Introduction
We have reviewed the accompanying condensed consolidated interim statement of financial position of Abu Dhabi Commercial Bank PJSC ("the Bank") and its subsidiaries (together referred to as "the Group") as at 30 June 2020 and the related condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the three-month and six-month periods then ended and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review
We conducted our review in accordance with the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Other matter
The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 26 January 2020. Furthermore, the condensed consolidated interim financial information of the Group for the six months period ended 30 June 2019 were reviewed by another auditor who expressed an unmodified conclusion on the same on 28 July 2019.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.

J Murphy.

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

29 July 2020
Abu Dhabi

Condensed consolidated interim statement of financial position

As at June 30, 2020

	Notes	As at June 30 2020 unaudited AED'000	As at December 31 2019 restated (*) AED'000
Assets			
Cash and balances with central banks, net	5	21,266,695	24,904,966
Deposits and balances due from banks, net	6	24,055,949	23,064,974
Derivative financial instruments	7	14,188,359	6,789,717
Investment securities	8	78,554,019	73,442,662
Loans and advances to customers, net	9	239,288,364	247,833,080
Investment in associates		398,662	407,768
Investment properties	11	1,693,290	1,693,707
Other assets, net	12	17,066,540	16,750,208
Property and equipment, net		2,140,700	2,197,571
Intangible assets, net	35	7,426,878	7,474,342
Assets held for sale		155,345	535,830
Total assets		**406,234,801**	405,094,825
Liabilities			
Due to banks	13	6,337,213	5,732,779
Derivative financial instruments	7	14,861,743	6,949,891
Deposits from customers	14	250,272,256	262,093,782
Euro commercial paper	15	3,372,261	2,062,338
Borrowings	16	58,644,565	51,882,054
Other liabilities	17	19,752,046	20,302,794
Liabilities related to assets held for sale		6,795	413,395
Total liabilities		**353,246,879**	349,437,033
Equity			
Share capital	18	6,957,379	6,957,379
Share premium		17,878,882	17,878,882
Other reserves	19	7,942,232	9,257,919
Retained earnings		14,207,831	15,544,207
Capital notes	20	6,000,000	6,000,000
Equity attributable to equity holders of the Bank		**52,986,324**	55,638,387
Non-controlling interests		1,598	19,405
Total equity		**52,987,922**	55,657,792
Total liabilities and equity		**406,234,801**	405,094,825

(*) refer note 35

This condensed consolidated interim financial information was approved by the Board of Directors and authorised for issue on July 29, 2020 and signed on its behalf by:

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

The accompanying notes 1 to 35 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim income statement (unaudited)
For the six month period ended June 30, 2020

		3 months ended June 30 (*)		6 months ended June 30 (*)	
		2020	2019	2020	2019
	Notes	AED'000	AED'000	AED'000	AED'000
Interest income	21	2,985,491	3,528,243	6,613,486	6,329,588
Interest expense	22	(1,030,827)	(1,672,709)	(2,445,755)	(3,021,007)
Net interest income		1,954,664	1,855,534	4,167,731	3,308,581
Income from Islamic financing and investing products		537,908	652,710	1,304,930	967,858
Distribution on Islamic deposits and profit paid to sukuk holders		(145,982)	(206,828)	(336,776)	(268,259)
Net income from Islamic financing and investing products		391,926	445,882	968,154	699,599
Total net interest income and income from Islamic financing and investing products		2,346,590	2,301,416	5,135,885	4,008,180
Net fees and commission income	23	310,632	438,983	742,089	817,625
Net trading income	24	155,611	80,067	294,529	213,162
Other operating income	25	128,191	63,426	244,506	118,072
Operating income		2,941,024	2,883,892	6,417,009	5,157,039
Operating expenses	26	(1,025,190)	(1,160,279)	(2,350,600)	(1,953,505)
Operating profit before impairment allowances		1,915,834	1,723,613	4,066,409	3,203,534
Impairment allowances	27	(668,278)	(541,199)	(2,550,773)	(871,122)
Operating profit after impairment allowances		1,247,556	1,182,414	1,515,636	2,332,412
Share in profit of associates		11,218	2,308	610	5,057
Profit before taxation		1,258,774	1,184,722	1,516,246	2,337,469
Overseas income tax expense		(28,767)	(3,730)	(60,486)	(4,166)
Profit for the period from continuing operations		1,230,007	1,180,992	1,455,760	2,333,303
Loss from discontinued operations		(3,197)	(2,691)	(19,687)	(2,691)
Profit for the period		1,226,810	1,178,301	1,436,073	2,330,612
Attributable to:					
Equity holders of the Bank		1,228,457	1,177,162	1,435,827	2,329,473
Non-controlling interests		(1,647)	1,139	246	1,139
Profit for the period		1,226,810	1,178,301	1,436,073	2,330,612
Basic and diluted earnings per share (AED)	28	0.18	0.18	0.19	0.38

(*) refer note 2.1 for basis of preparation

The accompanying notes 1 to 35 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of comprehensive income (unaudited)
For the six month period ended June 30, 2020

	3 months ended June 30 (*)		6 months ended June 30 (*)	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Profit for the period	**1,226,810**	1,178,301	**1,436,073**	2,330,612
Items that may be re-classified subsequently to the condensed consolidated interim income statement				
Exchange difference arising on translation of foreign operations (Note 19)	**2,971**	18,444	**(27,687)**	23,120
Net movement in cash flow hedge reserve (Note 19)	**(11,084)**	(19,573)	**19,270**	105,469
Net movement in revaluation reserve of debt instruments designated at FVTOCI (Note 19)	**3,235,471**	234,931	**(1,251,141)**	560,461
	3,227,358	233,802	**(1,259,558)**	689,050
Items that may not be re-classified subsequently to the condensed consolidated interim income statement				
Net movement in revaluation reserve of equity instruments designated at FVTOCI (Note 19)	**29,596**	(36,600)	**(59,172)**	(27,077)
Other comprehensive income/(loss) for the period	**3,256,954**	197,202	**(1,318,730)**	661,973
Total comprehensive income for the period	**4,483,764**	1,375,503	**117,343**	2,992,585
Attributable to:				
Equity holders of the Bank	**4,485,354**	1,373,756	**117,048**	2,990,838
Non-controlling interests	**(1,590)**	1,747	**295**	1,747
Total comprehensive income for the period	**4,483,764**	1,375,503	**117,343**	2,992,585

(*) refer note 2.1 for basis of preparation

The accompanying notes 1 to 35 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of changes in equity (unaudited)
For the six month period ended June 30, 2020

	Share capital	Share premium	Other reserves	Retained earnings	Capital notes	Equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
As at January 1, 2020 (as previously reported)	**6,957,379**	**17,878,882**	**9,257,919**	**15,544,207**	**6,000,000**	**55,638,387**	**59,257**	**55,697,644**
Restatement due to adjustments for IFRS 3 – Business combinations (Note 35)	**-**	**-**	**-**	**-**	**-**	**-**	**(39,852)**	**(39,852)**
As at January 1, 2020 (restated)	**6,957,379**	**17,878,882**	**9,257,919**	**15,544,207**	**6,000,000**	**55,638,387**	**19,405**	**55,657,792**
Profit for the period	**-**	**-**	**-**	**1,435,827**	**-**	**1,435,827**	**246**	**1,436,073**
Other comprehensive (loss)/income for the period (Note 19)	**-**	**-**	**(1,318,779)**	**-**	**-**	**(1,318,779)**	**49**	**(1,318,730)**
Other movements (Note 19)	**-**	**-**	**1,893**	**-**	**-**	**1,893**	**-**	**1,893**
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 19)	**-**	**-**	**-**	**21,069**	**-**	**21,069**	**-**	**21,069**
Adjustment arising from changes in non-controlling interests	**-**	**-**	**1,199**	**(2,151)**	**-**	**(952)**	**(18,102)**	**(19,054)**
Dividends paid to equity holders of the Bank	**-**	**-**	**-**	**(2,643,804)**	**-**	**(2,643,804)**	**-**	**(2,643,804)**
Capital notes coupon paid (Note 28)	**-**	**-**	**-**	**(147,317)**	**-**	**(147,317)**	**-**	**(147,317)**
As at June 30, 2020 (*)	**6,957,379**	**17,878,882**	**7,942,232**	**14,207,831**	**6,000,000**	**52,986,324**	**1,598**	**52,987,922**
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 35)	1,759,148	15,458,883	-	-	-	17,218,031	-	17,218,031
Addition on business combinations	-	-	-	-	3,836,500	3,836,500	149,322	3,985,822
Profit for the period	-	-	-	2,329,473	-	2,329,473	1,139	2,330,612
Other comprehensive income for the period (Note 19)	-	-	661,365	-	-	661,365	608	661,973
Other movements (Note 19)	-	-	6,241	-	-	6,241	-	6,241
Amounts transferred within equity upon disposal of investments in equity instruments designated at FVTOCI (Note 19)	-	-	-	(2)	-	(2)	-	(2)
Repayment of Tier 1 capital notes (Note 20)	-	-	-	-	(1,836,500)	(1,836,500)	-	(1,836,500)
Dividends paid to equity holders of the Bank	-	-	-	(2,391,186)	-	(2,391,186)	-	(2,391,186)
Capital notes coupon paid (Note 28)	-	-	-	(121,241)	-	(121,241)	-	(121,241)
As at June 30, 2019 (*)	6,957,379	17,878,882	7,526,877	14,145,086	6,000,000	52,508,224	151,069	52,659,293

(*) refer note 2.1 for basis of preparation

Following the Annual General Meeting held on March 18, 2020, the shareholders approved the distribution of proposed cash dividend of AED 2,643,804 thousand for the year 2019, being AED 0.38 dividend per share and representing 38% of the paid up share capital (For the year 2018 – cash dividend of AED 2,391,186 thousand, being AED 0.46 dividend per share and representing 46% of the paid up share capital).

The accompanying notes 1 to 35 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of cash flows (unaudited)
For the six month period ended June 30, 2020

	6 months ended June 30 (*) 2020 AED'000	2019 AED'000
OPERATING ACTIVITIES		
Profit before taxation (including loss from discontinued operations)	**1,496,559**	2,334,778
Adjustments for:		
Depreciation on property and equipment (Note 26)	**199,053**	154,806
Amortisation of intangible assets (Note 26)	**47,464**	-
Impairment allowances (Note 27)	**2,677,495**	966,374
Share in profit of associates	**(610)**	(5,057)
Discount unwind	**(385,322)**	-
Net (gains)/losses from disposal of investment securities (Note 25)	**(130,243)**	758
Interest income on investment securities	**(1,122,508)**	(1,112,009)
Dividend income (Note 25)	**(10,436)**	(3,658)
Interest expense on borrowings and euro commercial paper	**689,720**	907,172
Net losses/(gains) from trading securities (Note 24)	**4,282**	(758)
Ineffective portion of hedges – (gains)/losses (Note 7)	**(35,252)**	49,715
Employees' incentive plan expense (Note 19)	**1,893**	6,241
Cash flows from operating activities before changes in operating assets and liabilities	**3,432,095**	3,298,362
Decrease in balances with central banks	**4,043,251**	2,808,805
Increase in due from banks	**(1,739,239)**	(67,595)
Net movement in derivative financial instruments	**(41,435)**	84,385
Net (purchases)/disposals of investments at fair value through profit and loss	**(4,337)**	60,892
Decrease/(increase) in loans and advances to customers	**6,240,586**	(29,644)
Decrease in other assets	**418,601**	292,958
Increase/(decrease) in due to banks	**1,000,942**	(807,159)
(Decrease)/increase in deposits from customers	**(11,942,242)**	1,019,734
(Decrease)/increase in other liabilities	**(1,145,847)**	30,577
Net cash from operations	**262,375**	6,691,315
Overseas income tax paid	**(30,057)**	(4,448)
Net cash from operating activities	**232,318**	6,686,867
INVESTING ACTIVITIES		
Net proceeds from redemption/disposal of investment securities	**16,814,757**	17,985,178
Net purchases of investment securities	**(21,113,026)**	(16,592,648)
Interest received on investment securities	**1,192,056**	1,145,823
Dividend received from investment securities (Note 25)	**10,436**	3,658
Dividend received from associates	**9,646**	14,193
Net cash and cash equivalents acquired on business combination	**-**	9,562,191
Disposal of investment properties (Note 11)	**391**	1,650
Net purchases of property and equipment	**(114,527)**	(96,145)
Net cash (used in)/from investing activities	**(3,200,267)**	12,023,900
FINANCING ACTIVITIES		
Net increase/(decrease) in euro commercial paper	**1,299,851**	(1,029,814)
Net proceeds from borrowings	**25,593,677**	9,922,539
Repayment of borrowings	**(20,711,280)**	(7,376,072)
Interest paid on borrowings and euro commercial paper	**(336,143)**	(431,532)
Payment of lease liabilities	**(54,047)**	(32,625)
Dividends paid to equity holders of the Bank	**(2,643,804)**	(2,391,186)
Acquisition of non-controlling interests	**(19,054)**	-
Repayment of capital notes (Note 20)	**-**	(1,836,500)
Capital notes coupon paid (Note 28)	**(147,317)**	(121,241)
Net cash from/(used in) financing activities	**2,981,883**	(3,296,431)
Net increase in cash and cash equivalents	**13,934**	15,414,336
Cash and cash equivalents at the beginning of the period	**22,856,273**	23,094,853
Cash and cash equivalents at the end of the period	**22,870,207**	38,509,189

(*) refer note 2.1 for basis of preparation

The accompanying notes 1 to 35 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of cash flows (unaudited) (continued)
For the six month period ended June 30, 2020

Cash and cash equivalents

Cash and cash equivalents included in the condensed consolidated interim statement of cash flows comprise of following amounts:

	As at June 30 2020 unaudited AED '000	As at December 31 2019 audited AED'000
Cash and balances with central banks (Note 5)	**21,266,937**	24,905,213
Deposits and balances due from banks (excluding loans and advances to banks) (Note 6)	**12,140,806**	11,389,514
Due to banks (Note 13)	**(6,337,213)**	(5,732,779)
	27,070,530	30,561,948
Less: Cash and balances with central banks and deposits and balances due from banks – with original maturity of more than three months	**(7,895,704)**	(10,442,791)
Add: Due to banks – with original maturity of more than three months	**3,560,405**	2,553,434
Add: Cash and cash equivalents included in assets held for sale	**134,976**	183,682
Total cash and cash equivalents	**22,870,207**	22,856,273

The accompanying notes 1 to 35 form an integral part of this condensed consolidated interim financial information.

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”) are 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. Summary of significant accounting policies

2.1 Basis of preparation

The condensed consolidated interim financial information has been prepared on a going concern basis and in accordance with IAS 34 - Interim Financial Reporting. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of ADCB for the year ended December 31, 2019, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretation Committee (IFRIC) Interpretations.

The condensed consolidated financial information and related notes for the six month period ended June 30, 2020 include the results of UNB, AHB and their subsidiaries while the comparative results for the six month period ended June 30, 2019 do not include their results prior to May 1, 2019 i.e. the date of merger and acquisition.

The same accounting policies, presentation and methods of computation have been followed in this condensed consolidated interim financial information as were applied in the preparation and presentation of the Group’s consolidated financial statements for the year ended December 31, 2019, except for the changes in accounting policies mentioned in Note 2.5.

Certain disclosure notes/numbers have been restated (refer note 35), reclassified and rearranged from the Group’s prior period condensed consolidated interim financial information to conform to the current period's presentation.

The results for the six month period ended June 30, 2020 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2020.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The condensed consolidated interim financial information is prepared and presented in United Arab Emirates Dirham (AED), which is the Group's functional and presentation currency and is rounded off to the nearest thousand unless otherwise indicated.

The preparation of the condensed consolidated interim financial information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The main areas of judgments, estimates and assumptions applied in this condensed consolidated interim financial information, including the key sources of estimation uncertainty were the same as those applied in ADCB's consolidated financial statements for the year ended December 31, 2019, except for those disclosed in Note 3.

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

2.2.1 New and revised IFRSs effective for accounting periods beginning on or after January 1, 2020

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

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

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

2. Summary of significant accounting policies (continued)

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

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

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

2. Summary of significant accounting policies (continued)

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

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

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 aiming 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.

2.3 Basis of consolidation

This condensed consolidated interim financial information incorporates the financial statements of the Bank and its subsidiaries (collectively referred to as the "Group").

Subsidiaries

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the condensed consolidated interim financial information from the date that control commences until the date that control ceases.

2. Summary of significant accounting policies (continued)

2.3 Basis of consolidation (continued)

Following is the list of subsidiaries as at June 30, 2020:

Name of subsidiary	Ownership interest	Incorporation Year	Incorporation Country	Principal activities
ADCB Securities LLC	100%	2005	UAE	Agent in trading of financial instruments and stocks.
Abu Dhabi Commercial Properties LLC	100%	2005	UAE	Real estate property management and advisory services.
Abu Dhabi Commercial Finance Solutions LLC	100%	2005	UAE	Financial investments.
Abu Dhabi Commercial Investment Services LLC	100%	2005	UAE	Financial investments.
Kinetic Infrastructure Development LLC	100%	2006	UAE	Financial investments.
Abu Dhabi Commercial Property Development LLC (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.
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%	2007	UAE	Marketing management services.
Union National Bank – Egypt	99.74%	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 Auto LLC (2)	100%	2009	UAE	Shari'a compliant trading in new and used cars.
Al Hilal Al Mariah Development LLC (3)	100%	2012	UAE	Real estate development.
AHB Sukuk Company Limited	Controlling Interest	2011	Cayman Islands	Treasury financing activities.

(1) dormant
(2) discontinued operations
(3) under liquidation

During the quarter, Al Hilal Bank PJSC sold the entire shareholding in Al Hilal Takaful PSC.

2. Summary of significant accounting policies (continued)

2.3 Basis of consolidation (continued)

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 condensed consolidated interim financial information except when the Bank controls the entity, as mentioned above.

Loss of control

Upon loss of control, the Bank derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in condensed consolidated interim income statement. If the Bank retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Bank's accounting policy for financial instruments depending on the level of influence retained.

Transactions eliminated on consolidation

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

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 condensed consolidated interim financial information 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.

2. Summary of significant accounting policies (continued)

2.3 Basis of consolidation (continued)

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.

2.4 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 - Accounting Policies, Changes in Accounting Estimates and Errors.

The Group accounts for business combinations under common control using the acquisition method only if there is commercial substance. 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 condensed consolidated interim income statement 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 condensed consolidated interim income statement as a bargain purchase gain.

2. Summary of significant accounting policies (continued)

2.4 Business combination under common control (continued)

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. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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 condensed consolidated interim income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to condensed consolidated interim income statement where such treatment would be appropriate if that interest were disposed of.

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

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

Impairment testing of goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (Note 35) 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 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 condensed consolidated interim income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

2. Summary of significant accounting policies (continued)

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

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

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

Accounting policy till December 31, 2019

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

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

Fair value hedges

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

2. Summary of significant accounting policies (continued)

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

Accounting policy till December 31, 2019 (continued)

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to condensed consolidated interim 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 condensed consolidated interim income statement.

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

Net investment hedge

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

Hedge effectiveness testing

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

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

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

2. Summary of significant accounting policies (continued)

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

Accounting policy from January 1, 2020

Hedge accounting transition from IAS 39 to IFRS 9

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

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

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

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

Fair value hedges

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

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

2. Summary of significant accounting policies (continued)

2.5 Changes in accounting policy on adoption of IFRS 9 – Hedge Accounting (continued)

Accounting policy from January 1, 2020 (continued)

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 condensed consolidated interim income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to condensed consolidated interim 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 condensed consolidated interim income statement.

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

Net investment hedge

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

Hedge effectiveness testing

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

The Group uses hypothetical derivative method for its quantitative assessment of effectiveness on those hedge relationship where the critical terms of the hedge relationships are matching at the inception of the hedge and continue to match throughout the life of the relationship. The hypothetical derivative replicates the hedge item and hence is not used for those hedge relationships where the hedging derivative includes features that are not present in the hedged item. In such cases, the hedge effectiveness assessment is performed using other quantitative methods and may result in ineffectiveness.

2. Summary of significant accounting policies (continued)

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

Accounting policy from January 1, 2020 (continued)

Hedge effectiveness testing (continued)

The sources of ineffectiveness include the following:

- mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences
- changes in credit risk of the hedging instruments
- cash flow hedges using external swaps with non-zero fair values
- the effects of the forthcoming reforms of Interest rate Benchmark, because these might take effect at a different time and have a different impact on hedged items and hedging instruments.

The ineffectiveness arising from quantitative assessments is recognised in the condensed consolidated interim 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 condensed consolidated interim income statement in "net gains from dealing in derivatives" under net trading income.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

Impairment of goodwill and intangible assets

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

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

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

The Covid-19 pandemic has caused an unprecedented human and health crisis. The measures necessary to contain the virus have triggered an economic downturn. At this point, there is great uncertainty about its severity and length. Since the pandemic's outbreak, prices of risk assets have fallen sharply, and in some cases endured declines of 30 percent or more at the trough. Credit spreads have jumped and volatility has spiked to levels reminiscent of the global financial crisis with significant deterioration in market liquidity.

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

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

A. Temporary relief to customers

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

- CBUAE has granted an extension of AED 50 billion capital buffer for the entire banking industry till December 31, 2021. This will facilitate additional lending capacity of banks.
- CBUAE has granted an extension of the zero cost funding facility against eligible collateral until December 31, 2020. The value of the zero cost funding programme is AED 50 billion.

B. Liquidity and capital stimulus package

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

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

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

B. Liquidity and capital stimulus package (continued)

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

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

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

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

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

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

On April 22, 2020, the Central Bank of UAE issued guidance on treatment of IFRS 9 ECL in context of the Covid-19 crises. The guidance requires banks to identify customers who are temporarily and mildly impacted by Covid (Group 1) and those who are significantly impacted by Covid in the long term (Group 2). The guidance also requires the Bank to review the credit conversion factor, staging and run scenarios to ascertain the impact of the macro-economic variables. ADCB has taken necessary steps to comply with this guidance.

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

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

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

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

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

Impact of Covid-19 on ADCB Group

ADCB's corporate portfolio is primarily UAE focused, therefore the Central Bank TESS programme directly aids most of the corporate portfolios with the exception of government-related enterprises / government debt which we believe will be able to manage this crisis based on their ownership and economic importance to the country. Group Credit and Business teams review the portfolio on an ongoing basis and a review by name of all significant exposures in the directly impacted industries such as aviation, hospitality, real estate, contracting, retail, malls and leisure, was done by Group Credit.

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

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

Impact on ECL

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

ADCB has run several macro-economic variable scenarios by incorporating changes to weights of economic scenarios, reduction in oil prices, drop in real estate prices and a negative GDP growth. The results of these scenarios vary widely depending on the severity of the downturn and as such the bank has incorporated an overlay which is included in the net impairment charges of AED 2,551 million.

We anticipate the economic variables/forecasts to change as the longevity of Covid-19 lock-down and the OPEC oil production decisions have more clarity. Given that ADCB's portfolio is largely UAE based, all the government support measures will directly mitigate the impact of ECL on its portfolio.

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

Governance updates related to TESS

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

Payment deferrals under TESS

The Group has drawn AED 8,800,394 thousand of the TESS related funds allocated to it and has passed on AED 8,299,737 thousand of these funds to the customers by means of payment deferrals as at June 30, 2020. Payment deferrals were given to corporate, SME and retail customers in line with the Central Bank regulations ensuring that the customers impacted by Covid are supported by temporary payment deferrals.

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

	As at June 30, 2020 (unaudited)		
	Payment deferrals under TESS	Exposure	Impairment allowance
	AED'000	AED'000	AED'000
Overdrafts (corporates)	20,997	999,904	3,072
Retail loans	458,562	18,941,888	77,020
Corporate loans	5,192,237	56,413,712	483,854
Credit cards	100,542	102,524	16,041
Other facilities	2,527,399	2,499,361	8,713
Total	8,299,737	78,957,389	588,700

Product wise classification of retail loans:

	As at June 30, 2020 (unaudited)		
	Payment deferrals under TESS	Exposure	Impairment allowance
	AED '000	AED '000	AED '000
Personal loans	403,986	16,354,897	65,475
Mortgage loans	25,919	2,073,076	9,118
Auto loans	28,657	513,915	2,427
Total	458,562	18,941,888	77,020

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

Payment deferrals under TESS (continued)

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

	As at June 30, 2020 (unaudited)		
Economic activity sector	Payment deferrals under TESS AED'000	Exposure AED'000	Impairment allowance AED'000
Energy	102,940	556,431	5,333
Trading	2,395,165	3,152,125	16,673
Real estate investment	2,825,014	29,967,420	286,915
Hospitality	575,041	4,116,238	13,304
Transport and communication	187,185	673,484	9,258
Personal	783,907	21,075,535	93,241
Financial institutions (*)	372,644	8,200,674	41,981
Manufacturing	357,901	1,884,269	80,031
Services	205,362	400,124	3,306
Others	494,578	8,931,089	38,658
Total	**8,299,737**	**78,957,389**	**588,700**

(*) includes investment companies

Joint Guidance requires that all customers who avail payment deferrals are to be grouped into 2 categories:

Group 1

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

Group 2

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

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

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

		As at June 30, 2020 (unaudited)			
Segment	Group	Number of customers	Payment deferrals under TESS AED '000	Exposure AED '000	Impairment allowance AED '000
Wholesale banking (*)	Group 1	625	5,941,671	55,261,249	274,447
	Group 2	738	1,798,962	4,651,728	221,192
		1,363	7,740,633	59,912,977	495,639
Retail banking	Group 1	48,805	493,086	18,620,666	47,951
	Group 2	3,328	66,018	423,746	45,110
		52,133	559,104	19,044,412	93,061
Total		**53,496**	**8,299,737**	**78,957,389**	**588,700**

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

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

Payment deferrals under TESS (continued)

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

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

- **Forward looking information**

  The Group has run several ECL scenarios based on forward looking assumptions, also altering the down-side scenario with a 100% probability as opposed to 20% which is taken in the normal course of business. A macro-economic overlay has been set aside to factor in the macro-economic forecasts.

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

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

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

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

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

	Weighted average PD		Weighted average LGD	
Group	**Wholesale banking**	**Retail banking**	**Wholesale banking**	**Retail banking**
Group 1	**2.64%**	**1.34%**	**18.21%**	**70.43%**
Group 2	**13.33%**	**17.40%**	**26.61%**	**68.97%**
Segment average	**3.47%**	**1.69%**	**18.86%**	**70.39%**

- **Migration of staging**

  Customers that are categorised as Group 1 will remain in the same stage as of Q1 2020 since these customers do not have substantial changes to their credit worthiness. Further, customers that are categorised as Group 2 will move to Stage 2 if the other conditions of SICR are met.

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

Payment deferrals under TESS (continued)

The stage wise classification of customers availing TESS:

Segment	Stage	Group	Payment deferrals under TESS AED '000	Exposure AED '000	Impairment allowance AED '000
			As at June 30, 2020 (unaudited)		
Wholesale banking	Stage 1	Group 1	5,703,452	53,291,106	180,826
		Group 2	860,948	2,168,719	51,281
			6,564,400	55,459,825	232,107
	Stage 2	Group 1	238,219	1,970,143	93,621
		Group 2	938,014	2,483,009	169,911
			1,176,233	4,453,152	263,532
Total			7,740,633	59,912,977	495,639
Retail banking	Stage 1	Group 1	493,086	18,620,666	47,951
		Group 2	-	-	-
			493,086	18,620,666	47,951
	Stage 2	Group 1	-	-	-
		Group 2	66,018	423,746	45,110
			66,018	423,746	45,110
Total			559,104	19,044,412	93,061
Grand total			8,299,737	78,957,389	588,700

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

Wholesale banking	Stage 1 AED '000	Stage 2 AED '000	Total AED '000
As at January 1, 2020	53,661,470	4,338,158	57,999,628
- Transfer from stage 1 to stage 2	(1,122,258)	1,122,258	-
- Transfer from stage 2 to stage 1	990,921	(990,921)	-
Changes in exposure within same stage	1,929,692	(16,343)	1,913,349
As at June 30, 2020 (unaudited)	55,459,825	4,453,152	59,912,977

Retail banking	Stage 1 AED '000	Stage 2 AED '000	Total AED '000
As at January 1, 2020	18,109,089	424,582	18,533,671
- Transfer from stage 1 to stage 2	(148,928)	148,928	-
- Transfer from stage 2 to stage 1	181,112	(181,112)	-
Changes in exposure within same stage	479,393	31,348	510,741
As at June 30, 2020 (unaudited)	18,620,666	423,746	19,044,412

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

Payment deferrals under TESS (continued)

The internal rating classification of customers availing TESS deferrals as at June 30, 2020 (unaudited):

	Group 1			Group 2			Total		
Internal rating	Payment deferrals under TESS AED '000	Exposure AED '000	Impairment allowance AED '000	Payment deferrals under TESS AED '000	Exposure AED '000	Impairment allowance AED '000	Payment deferrals under TESS AED '000	Exposure AED '000	Impairment allowance AED '000
Grades 1-4	**1,219,405**	**16,461,542**	**9,264**	**62,069**	**254,226**	**201**	**1,281,474**	**16,715,768**	**9,465**
Grades 5-6	**4,410,526**	**36,747,941**	**195,608**	**871,021**	**1,908,846**	**17,918**	**5,281,547**	**38,656,787**	**213,526**
Grade 7	**272,838**	**1,827,250**	**64,833**	**798,097**	**2,158,453**	**191,420**	**1,070,935**	**3,985,703**	**256,253**
Unrated	**531,988**	**18,845,182**	**52,693**	**133,793**	**753,949**	**56,763**	**665,781**	**19,599,131**	**109,456**
Total	**6,434,757**	**73,881,915**	**322,398**	**1,864,980**	**5,075,474**	**266,302**	**8,299,737**	**78,957,389**	**588,700**

5. Cash and balances with central banks, net

	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Cash on hand	**1,427,896**	1,830,228
Balances with central banks	**4,813,975**	2,854,588
Reserves maintained with central banks	**9,889,499**	15,379,030
Certificate of deposits with central banks	**5,135,567**	4,841,367
Gross cash and balances with central banks	**21,266,937**	24,905,213
Less: Allowance for impairment (Note 10)	**(242)**	(247)
Total cash and balances with central banks, net	**21,266,695**	24,904,966
The geographical concentration is as follows:		
Within the UAE	**20,418,831**	24,120,803
Outside the UAE	**848,106**	784,410
	21,266,937	24,905,213
Less: Allowance for impairment (Note 10)	**(242)**	(247)
	21,266,695	24,904,966

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 June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Nostro balances	**648,128**	1,151,543
Margin deposits	**3,886,144**	1,315,686
Time deposits	**6,092,334**	5,616,585
Wakala placements	**1,514,200**	3,305,700
Loans and advances to banks	**11,968,845**	11,725,422
Gross deposits and balances due from banks	**24,109,651**	23,114,936
Less: Allowance for impairment (Note 10)	**(53,702)**	(49,962)
Total deposits and balances due from banks, net	**24,055,949**	23,064,974
The geographical concentration is as follows:		
Within the UAE	**8,635,365**	8,013,181
Outside the UAE	**15,474,286**	15,101,755
	24,109,651	23,114,936
Less: Allowance for impairment (Note 10)	**(53,702)**	(49,962)
	24,055,949	23,064,974

7. Derivative financial instruments

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 June 30, 2020 (unaudited)			
Derivatives held or issued for trading			
Foreign exchange derivatives	**431,972**	**443,049**	**352,244,217**
Interest rate and cross currency swaps	**8,600,578**	**8,652,831**	**269,226,880**
Interest rate and commodity options	**1,104,365**	**813,584**	**69,113,657**
Forward rate agreements	**258**	**418**	**6,048,202**
Commodity and energy swaps	**213,672**	**204,340**	**2,396,332**
Swaptions	**1,352,839**	**1,346,064**	**46,992,921**
Total derivatives held or issued for trading	**11,703,684**	**11,460,286**	**746,022,209**
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	**2,355,206**	**3,297,010**	**77,599,362**
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	**112,162**	**74,735**	**5,266,852**
Forward foreign exchange contracts	**17,307**	**29,712**	**3,838,781**
Total derivatives held as cash flow hedges	**129,469**	**104,447**	**9,105,633**
Total derivative financial instruments	**14,188,359**	**14,861,743**	**832,727,204**
As at December 31, 2019 (audited)			
Derivatives held or issued for trading			
Foreign exchange derivatives	532,891	521,455	331,658,208
Interest rate and cross currency swaps	4,241,279	4,234,121	265,245,648
Interest rate and commodity options	421,623	331,066	57,957,412
Forward rate agreements	111	26	560,031
Futures (exchange traded)	15	-	7,254,310
Commodity and energy swaps	157,052	150,144	2,091,119
Swaptions	213,455	219,663	40,292,838
Total derivatives held or issued for trading	5,566,426	5,456,475	705,059,566
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	1,050,963	1,421,646	82,493,134
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	76,819	51,881	7,000,783
Forward foreign exchange contracts	95,509	19,889	8,285,366
Total derivatives held as cash flow hedges	172,328	71,770	15,286,149
Total derivative financial instruments	6,789,717	6,949,891	802,838,849

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

The net hedge ineffectiveness gains relating to the fair value and cash flow hedges amounting to AED 35,252 thousand (for the six month period ended June 30, 2019 – net losses of AED 49,715 thousand) has been recognised in the condensed consolidated interim income statement.

As at June 30, 2020, the Group received cash collateral of AED 1,894,267 thousand (December 31, 2019 - AED 758,274 thousand) and bonds with fair value of AED 356,966 thousand (December 31, 2019 – AED 186,117 thousand) against net positive derivative exposure.

As at June 30, 2020, the Group placed cash collateral of AED 3,976,349 thousand (December 31, 2019 – AED 1,315,686 thousand) and bonds with fair value of AED 3,958,197 thousand (December 31, 2019 - AED 1,956,945 thousand) against net negative derivative exposure. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

8. Investment securities

	UAE AED'000	Other GCC(*) countries AED'000	Rest of the world AED'000	Total AED'000
As at June 30, 2020 (unaudited)				
At fair value through profit and loss				
Quoted:				
Government securities	55	-	-	55
At fair value through other comprehensive income				
Quoted:				
Government securities	17,324,234	14,836,328	8,071,202	40,231,764
Bonds – Public sector	10,983,336	1,795,538	4,711,582	17,490,456
Bonds – Banks and financial institutions	3,760,711	445,912	4,982,589	9,189,212
Bonds – Corporate	1,189,656	471,776	239,931	1,901,363
Equity instruments (**)	212,900	107,137	-	320,037
Mutual funds	-	-	72,374	72,374
Total quoted	33,470,837	17,656,691	18,077,678	69,205,206
Unquoted:				
Government securities	1,663,682	166,294	-	1,829,976
Bonds – Banks and financial institutions	-	-	134,517	134,517
Equity instruments	168,340	-	37,200	205,540
Mutual funds	-	1,612	532	2,144
Total unquoted	1,832,022	167,906	172,249	2,172,177
Total investment securities at fair value through other comprehensive income	35,302,859	17,824,597	18,249,927	71,377,383
At amortised cost				
Quoted:				
Government securities	1,363,162	4,168,148	94,056	5,625,366
Bonds – Public sector	1,144,036	-	169,275	1,313,311
Bonds – Banks and financial institutions	64,760	-	61,228	125,988
Bonds – Corporate	94,251	-	20,191	114,442
Total quoted	2,666,209	4,168,148	344,750	7,179,107
Less: Allowance for impairment (Note 10)	(676)	(1,347)	(503)	(2,526)
Total investment securities at amortised cost	2,665,533	4,166,801	344,247	7,176,581
Total investment securities	37,968,447	21,991,398	18,594,174	78,554,019
As at December 31, 2019 (restated) (Note 35)				
At fair value through other comprehensive income				
Quoted:				
Government securities	11,991,052	16,262,483	9,335,345	37,588,880
Bonds – Public sector	10,209,692	1,780,786	4,695,439	16,685,917
Bonds – Banks and financial institutions	6,882,385	479,304	5,083,594	12,445,283
Bonds – Corporate	1,302,004	473,176	302,977	2,078,157
Equity instruments (**)	251,237	110,809	81,623	443,669
Mutual funds	72,201	-	86,990	159,191
Total quoted	30,708,571	19,106,558	19,585,968	69,401,097
Unquoted:				
Government securities	3,509,814	174,598	-	3,684,412
Bonds – Banks and financial institutions	-	-	134,226	134,226
Equity instruments	183,077	-	37,655	220,732
Mutual funds	-	1,615	580	2,195
Total unquoted	3,692,891	176,213	172,461	4,041,565
Total investment securities	34,401,462	19,282,771	19,758,429	73,442,662

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

8. Investment securities (continued)

As at June 30, 2020, the allowance for impairment on debt instruments designated at FVTOCI amounting to AED 348,613 thousand (December 31, 2019 - AED 260,417 thousand) (Note 10) 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 June 30, 2020 was AED 3,040,823 thousand (December 31, 2019 – net negative fair value AED 1,010,614 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the condensed consolidated interim 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 June 30, 2020 (unaudited)		As at December 31, 2019 (audited)	
	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	**11,166,335**	**9,616,096**	1,041,439	851,056

(*) includes interest free borrowing of AED 8,800,394 thousand (December 31, 2019 – AED nil) from the Central Bank of UAE under its Targeted Economic Support Scheme (TESS)

Further, the Group pledged investment securities with fair value amounting to AED 3,958,197 thousand (December 31, 2019 – AED 1,964,034 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remains with the Group.

9. Loans and advances to customers, net

	As at June 30 2020 unaudited AED'000	As at December 31 2019 restated (*) AED'000
Overdrafts (retail and corporate)	**10,216,447**	12,682,973
Retail loans	**44,692,790**	46,664,157
Corporate loans	**178,659,864**	180,835,988
Credit cards	**4,163,161**	4,946,370
Other facilities	**10,937,451**	10,037,002
Gross loans and advances to customers	**248,669,713**	255,166,490
Less: Allowance for impairment (Note 10)	**(9,381,349)**	(7,333,410)
Total loans and advances to customers, net	**239,288,364**	247,833,080

(*) refer note 35

9. Loans and advances to customers, net (continued)

Islamic financing assets included in the above table are as follows:

	As at June 30 2020 unaudited AED'000	As at December 31 2019 restated (*) AED'000
Murabaha	21,183,501	20,491,619
Ijara financing	19,087,386	19,420,022
Salam	6,138,287	6,558,810
Others	462,265	596,398
Gross Islamic financing assets	46,871,439	47,066,849
Less: Allowance for impairment	(1,207,343)	(845,643)
Total Islamic financing assets, net	45,664,096	46,221,206

(*) refer note 35

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 June 30, 2020 was AED 38,095 thousand (December 31, 2019 - net positive fair value of AED 28,252 thousand).

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

	As at June 30, 2020 (unaudited)			As at December 31, 2019 (restated) (**)		
	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	239,893	76,379	316,272	203,757	51,745	255,502
Energy	1,446,771	1,935,049	3,381,820	1,645,117	1,838,315	3,483,432
Trading	8,847,315	1,840,505	10,687,820	8,698,087	1,712,628	10,410,715
Real estate investment	70,333,314	1,275,486	71,608,800	70,341,764	1,232,939	71,574,703
Hospitality	9,921,403	525,660	10,447,063	10,866,285	514,118	11,380,403
Transport and communication	2,655,844	1,344,878	4,000,722	2,841,693	1,849,401	4,691,094
Personal	57,471,105	1,261,652	58,732,757	59,679,910	1,173,687	60,853,597
Government and public sector entities	47,631,543	460,912	48,092,455	51,019,692	502,210	51,521,902
Financial institutions (*)	14,241,980	3,365,453	17,607,433	14,736,256	3,665,901	18,402,157
Manufacturing	5,265,701	1,981,319	7,247,020	5,274,291	1,983,287	7,257,578
Services	5,717,412	366,875	6,084,287	5,426,309	299,124	5,725,433
Others	10,174,418	288,846	10,463,264	9,311,793	298,181	9,609,974
Gross loans and advances to customers	233,946,699	14,723,014	248,669,713	240,044,954	15,121,536	255,166,490
Less: Allowance for impairment (Note 10)			(9,381,349)			(7,333,410)
Total loans and advances to customers, net			239,288,364			247,833,080

(*) includes investment companies
(**) refer note 35

9. Loans and advances to customers, net (continued)

Stage wise loans and advances to customers and associated impairment allowance is as follows:

	As at June 30, 2020 (unaudited)		As at December 31, 2019 (restated) (*)	
	Gross loans and advances to customers AED'000	**Allowance for impairment AED'000**	Gross loans and advances to customers AED'000	Allowance for impairment AED'000
Stage 1	**212,306,121**	**759,016**	223,186,671	787,275
Stage 2	**19,101,159**	**3,498,540**	19,819,216	2,982,378
Stage 3	**13,459,933**	**4,921,311**	8,459,834	3,492,707
Purchased or originated credit-impaired	**3,802,500**	**202,482**	3,700,769	71,050
Total	**248,669,713**	**9,381,349**	255,166,490	7,333,410

(*) refer note 35

10. Impairment allowances

The movement in impairment allowances is as follows:

	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Opening balance	**9,095,681**	7,308,843
Addition on business combination	**-**	1,166,556
Charge for the period/year	**2,677,495**	2,586,579
Recoveries during the period/year	**(126,722)**	(234,525)
Net charge for the period/year	**2,550,773**	2,352,054
Net amounts written-off	**(578,138)**	(1,731,772)
Total impairment allowances	**11,068,316**	9,095,681

Allocation of impairment allowances is as follows:

	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Cash and balances with central banks (Note 5)	**242**	247
Deposits and balances due from banks (Note 6)	**53,702**	49,962
Investment securities (Note 8) (*)	**351,139**	260,417
Loans and advances to customers (Note 9)	**9,381,349**	7,333,410
Other assets (Note 12)	**17,267**	19,282
Letters of credit, guarantees and other commitments (Note 17)	**1,264,617**	1,432,363
Total impairment allowances	**11,068,316**	9,095,681

(*) impairment allowance amounting to AED 348,613 thousand (December 31, 2019 - AED 260,417 thousand) is included in revaluation reserve of investments designated at FVTOCI and recognised in other comprehensive income

11. Investment properties

	AED'000
As at January 1, 2019	576,671
Addition on business combinations (Note 35)	1,180,799
Additions during the year	8,550
Disposal during the year	(5,859)
Revaluation of investment properties	(67,153)
Impact of currency translation	699
As at December 31, 2019 (audited)	**1,693,707**
Disposals during the period	**(391)**
Impact of currency translation	**(26)**
As at June 30, 2020 (unaudited)	**1,693,290**

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.

Investment properties of the Group are primarily located within the UAE.

12. Other assets, net

	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Interest receivable	**2,925,451**	3,286,001
Advance tax	**3,579**	3,451
Prepayments	**140,339**	139,116
Acceptances (Note 17)	**13,196,062**	12,726,229
Others	**818,376**	614,693
Gross other assets	**17,083,807**	16,769,490
Less: Allowance for impairment (Note 10)	**(17,267)**	(19,282)
Total other assets, net	**17,066,540**	16,750,208

13. Due to banks

	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Vostro balances	**1,509,718**	1,739,098
Margin deposits	**1,373,258**	460,583
Time deposits	**3,454,237**	3,533,098
Total due to banks	**6,337,213**	5,732,779

The Group hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net positive fair value of these swaps at June 30, 2020 was AED 20,780 thousand (December 31, 2019 – net positive fair value of AED 14,719 thousand).

14. Deposits from customers

	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Time deposits	**135,938,622**	159,797,395
Current account deposits	**85,737,276**	78,022,123
Savings deposits	**26,148,561**	21,873,206
Long term government deposits	**315,678**	351,702
Margin deposits	**2,132,119**	2,049,356
Total deposits from customers	**250,272,256**	262,093,782

Islamic deposits included in the above table are as follows:

	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Mudaraba term deposits	**1,375,417**	1,324,282
Wakala deposits	**14,765,627**	22,491,377
Current account deposits	**12,434,907**	11,507,685
Mudaraba savings deposits	**13,170,438**	11,401,045
Margin deposits	**234,191**	252,100
Total Islamic deposits	**41,980,580**	46,976,489

The Group hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net negative fair value of these swaps at June 30, 2020 was AED 4,279 thousand (December 31, 2019 – net positive fair value of AED 52,648 thousand).

15. Euro commercial paper

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

Currency	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
US dollar (USD)	**1,988,584**	889,733
Arab Emirati dirham (AED)	**199,848**	199,789
Euro (EUR)	**618,153**	404,553
Swiss franc (CHF)	**349,110**	247,332
Great Britain pound (GBP)	**175,506**	320,931
Australian dollar (AUD)	**41,060**	-
Total euro commercial paper	**3,372,261**	2,062,338

The Group hedges certain ECP for foreign currency exchange rate risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net negative fair value of these hedge contracts as at June 30, 2020 was AED 1,419 thousand (December 31, 2019 - net positive fair value of AED 6,060 thousand).

The effective interest rate on ECPs issued ranges between negative 0.548% p.a. to positive 2.187% p.a. (December 31, 2019 – between negative 0.439% p.a. to positive 3.189% p.a.).

16. Borrowings

The details of borrowings as at June 30, 2020 (unaudited) 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)	**76,949**	**720,116**	**-**	**611,816**	**1,408,881**
	Chinese renminbi (CNH)	**125,184**	**217,487**	**101,195**	**-**	**443,866**
	Euro (EUR)	**82,242**	**81,830**	**81,816**	**-**	**245,888**
	Swiss franc (CHF)	**-**	**982,306**	**1,390,490**	**-**	**2,372,796**
	Japanese yen (JPY)	**84,967**	**77,803**	**-**	**-**	**162,770**
	Hong Kong dollar (HKD)	**228,363**	**222,385**	**188,469**	**-**	**639,217**
	US dollar (USD)	**201,982**	**8,465,488**	**3,887,325**	**20,869,742**	**33,424,537**
	Great Britain pound (GBP)	**72,664**	**251,757**	**-**	**-**	**324,421**
	Indonesian rupiah (IDR)	**-**	**-**	**-**	**507,256**	**507,256**
		872,351	**11,019,172**	**5,649,295**	**21,988,814**	**39,529,632**
Islamic sukuk notes	US dollar (USD)	**-**	**-**	**1,873,981**	**-**	**1,873,981**
Bilateral loans	US dollar (USD)	**917,832**	**3,436,007**	**-**	**-**	**4,353,839**
	Kazakhstan tenge (KZT)	**-**	**-**	**-**	**69,464**	**69,464**
Certificate of deposits issued	US dollar (USD)	**321,354**	**-**	**-**	**-**	**321,354**
Subordinated notes	US dollar (USD)	**-**	**2,880,199**	**-**	**-**	**2,880,199**
Borrowings through repurchase agreements	US dollar (USD)	**598,383**	**-**	**-**	**202,333**	**800,716**
	Arab Emirati dirham (AED)*	**8,800,394**	**-**	**-**	**-**	**8,800,394**
	Egyptian pound (EGP)	**-**	**4,819**	**-**	**10,167**	**14,986**
Total borrowings		**11,510,314**	**17,340,197**	**7,523,276**	**22,270,778**	**58,644,565**

(*) represents interest free borrowings from the Central Bank of UAE under its Targeted Economic Support Scheme (TESS)

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net positive fair value of these swaps as at June 30, 2020 was AED 2,070,864 thousand.

16. **Borrowings** (continued)

The details of borrowings as at December 31, 2019 (audited) 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 loans – 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.

16. Borrowings (continued)

Interest is payable in arrears and the contractual coupon rates as at June 30, 2020 (unaudited) are as follows:

Instrument	CCY	Within 1 year	1-3 years	3-5 years	Over 5 years
Global medium term notes	AUD	Fixed rate of 3.73% p.a.	Fixed rate between 3.75% p.a. to 3.92% p.a. and quarterly coupons with 138 basis points over bank bill swap rate (BBSW)	-	Fixed rate between 2.69% p.a. to 4.50% p.a.
	CNH	Fixed rate between 4.85% p.a. to 5.02% p.a.	Fixed rate between 4.05% p.a. to 4.10% p.a.	Fixed rate of 4.60% p.a.	-
	EUR	Quarterly coupons with 50 basis points over Euribor	Fixed rate of 0.038% p.a.	Fixed rate of 0.75% p.a.	-
	CHF	-	Fixed rate of 0.385% p.a.	Fixed rate between 0.05% p.a. to 0.735% p.a.	-
	JPY	Fixed rate of 0.445% p.a.	Fixed rate of 0.445% p.a.	-	-
	HKD	Fixed rate between 2.30% p.a. to 2.86% p.a.	Fixed rate between 3.05% p.a. to 3.20% p.a.	Fixed rate between 2.84% p.a. to 2.87% p.a.	-
	USD	Quarterly coupons 80 to 90 basis points over Libor	Fixed rate between 2.75% p.a. to 4.00% p.a. and quarterly coupons 88 to 140 basis points over Libor	Quarterly coupons 103 to 155 basis points over Libor	Fixed rate between 3.823% p.a. to 5.785% p.a. and quarterly coupons 140 basis points over Libor(*)
	GBP	Fixed rate of 1.40% p.a.	Fixed rate between 1.95% p.a. and 2.03% p.a.	-	-
	IDR	-	-	-	Fixed rate between 7.50% p.a. to 8.16% p.a.
Islamic sukuk notes	USD	-	-	Fixed rate of 4.375% p.a.	-
Bilateral loans	USD	Monthly and quarterly coupons 63 to 80 basis points over Libor	Monthly coupons between 50 to 95 basis points over Libor	-	-
	KZT	-	-	-	Fixed rate of 9.70% p.a.
Certificate of deposits issued	USD	Fixed rate between 1.88% p.a. to 2.48% p.a.	-	-	-
Subordinated notes	USD	-	Fixed rate of 4.50% p.a.	-	-
Borrowings through repurchase agreements	USD	Fixed rate between 3.72% p.a. to 3.85% p.a.	-	-	Semi-annual coupons between negative 20 to 18 basis points over Libor
	EGP	-	Fixed rate of 3.00% p.a.	-	Fixed rate between 0.50% p.a. to 3.50% p.a.

(*) includes AED 19,910,700 thousand accreting notes for maturities ranging from 30 years to 40 years with yield ranging between 3.822% p.a. to 5.785% p.a. and are callable at the end of every 5th, 6th, 7th or 10th year from issue date

The subordinated fixed rate note qualifies as Tier 2 capital and is eligible for grandfathering at the rate of 10% per annum in accordance with capital guidance issued by the UAE Central Bank. Further, the subordinated fixed rate note has entered its fifth year to maturity and is being amortised at the rate of 20% per annum till its maturity in 2023 (Note 31).

17. Other liabilities

	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Interest payable	**1,235,082**	1,758,479
Recognised liability for defined benefit obligation	**645,924**	633,262
Accounts payable and other creditors	**301,419**	353,293
Deferred income	**745,159**	813,968
Acceptances (Note 12)	**13,196,062**	12,726,229
Impairment allowance on letters of credit, guarantees and other commitments (Note 10)	**1,264,617**	1,432,363
Others	**2,363,783**	2,585,200
Total other liabilities	**19,752,046**	20,302,794

18. Share capital

	Authorised	Issued and fully paid	
		As at June 30 2020 unaudited	As at December 31 2019 audited
	AED'000	AED'000	AED'000
Ordinary shares of AED 1 each	**10,000,000**	**6,957,379**	6,957,379

As at June 30, 2020, Abu Dhabi Investment Council Company PJSC held 60.20% (December 31, 2019 – 60.20%) of the Bank's issued and fully paid up share capital.

19. Other reserves (unaudited)

Reserves movement for the six month period ended June 30, 2020:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated at FVTOCI AED'000	Attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2020	**(30,105)**	**3,276,767**	**3,276,767**	**2,000,000**	**150,000**	**(54,521)**	**22,727**	**616,284**	**9,257,919**	**2,422**	**9,260,341**
Exchange difference arising on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**(27,686)**	**-**	**-**	**(27,686)**	**(1)**	**(27,687)**
Net fair value changes on cash flow hedges	**-**	**-**	**-**	**-**	**-**	**-**	**31,766**	**-**	**31,766**	**-**	**31,766**
Net fair value changes on cash flow hedges reclassified to condensed consolidated interim income statement	**-**	**-**	**-**	**-**	**-**	**-**	**(12,496)**	**-**	**(12,496)**	**-**	**(12,496)**
Net fair value changes of debt instruments designated at FVTOCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,209,324)**	**(1,209,324)**	**50**	**(1,209,274)**
Amounts reclassified to condensed consolidated interim income statement for debt instruments designated at FVTOCI (*)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(41,867)**	**(41,867)**	**-**	**(41,867)**
Net fair value changes of equity instruments designated at FVTOCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(38,103)**	**(38,103)**	**-**	**(38,103)**
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(21,069)**	**(21,069)**	**-**	**(21,069)**
Total other comprehensive (loss)/income for the period	**-**	**-**	**-**	**-**	**-**	**(27,686)**	**19,270**	**(1,310,363)**	**(1,318,779)**	**49**	**(1,318,730)**
Acquisition of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**36**	**-**	**1,163**	**1,199**	**(1,199)**	**-**
Shares – vested portion	**1,893**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,893**	**-**	**1,893**
As at June 30, 2020	**(28,212)**	**3,276,767**	**3,276,767**	**2,000,000**	**150,000**	**(82,171)**	**41,997**	**(692,916)**	**7,942,232**	**1,272**	**7,943,504**

(*) includes allowance for impairment (Note 27)

19. Other reserves (unaudited) (continued)

Reserves movement for the six month period ended June 30, 2019:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated at FVTOCI AED'000	Attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2019	(41,758)	2,797,799	2,797,799	2,000,000	150,000	(86,249)	(148,778)	(609,542)	6,859,271	-	6,859,271
Exchange difference arising on translation of foreign operations	-	-	-	-	-	22,655	-	-	22,655	465	23,120
Net fair value changes on cash flow hedges	-	-	-	-	-	-	104,611	-	104,611	-	104,611
Net fair value changes on cash flow hedges reclassified to condensed consolidated interim income statement	-	-	-	-	-	-	858	-	858	-	858
Net fair value changes of debt instruments designated at FVTOCI	-	-	-	-	-	-	-	543,037	543,037	143	543,180
Amounts reclassified to condensed consolidated interim income statement for debt instruments designated at FVTOCI (*)	-	-	-	-	-	-	-	17,281	17,281	-	17,281
Net fair value changes of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	(27,079)	(27,079)	-	(27,079)
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	2	2	-	2
Total other comprehensive income for the period	-	-	-	-	-	22,655	105,469	533,241	661,365	608	661,973
Shares – vested portion	6,241	-	-	-	-	-	-	-	6,241	-	6,241
As at June 30, 2019	(35,517)	2,797,799	2,797,799	2,000,000	150,000	(63,594)	(43,309)	(76,301)	7,526,877	608	7,527,485

(*) includes allowance for impairment (Note 27)

20. Capital notes

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

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

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

Pursuant to merger, the Bank assumed erstwhile UNB's Tier I regulatory capital notes with a principal amount of AED 2,000,000 thousand. 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, were settled in June 2019.

21. Interest income (unaudited)

	3 months ended June 30		6 months ended June 30	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Loans and advances to banks	**122,396**	271,860	**316,769**	503,817
Loans and advances to customers	**2,368,423**	2,686,836	**5,174,500**	4,773,615
Investment securities	**494,672**	569,547	**1,122,217**	1,052,156
Total interest income	**2,985,491**	3,528,243	**6,613,486**	6,329,588

22. Interest expense (unaudited)

	3 months ended June 30		6 months ended June 30	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Deposits from banks	**14,781**	29,286	**36,132**	44,880
Deposits from customers	**727,854**	1,203,748	**1,704,833**	2,083,216
Euro commercial paper	**11,195**	25,491	**25,021**	57,461
Borrowings (*)	**276,997**	414,184	**679,769**	835,450
Total interest expense	**1,030,827**	1,672,709	**2,445,755**	3,021,007

(*) includes AED 7,385 thousand (for the six month period ended June 30, 2019: AED 4,343 thousand) for interest expense on lease liabilities

23. Net fees and commission income (unaudited)

	3 months ended June 30		6 months ended June 30	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Fees and commission income				
Card related fees	**158,522**	258,994	**397,241**	477,875
Loan processing fees	**97,893**	148,760	**249,939**	267,187
Accounts related fees	**36,805**	43,621	**80,834**	69,653
Trade finance commission	**108,367**	107,726	**235,525**	176,033
Insurance commission	**13,743**	17,058	**29,411**	31,300
Asset management and investment services	**12,315**	22,417	**27,816**	42,772
Brokerage fees	**1,935**	1,888	**3,744**	3,018
Other fees	**65,751**	66,067	**151,803**	141,466
Total fees and commission income	**495,331**	666,531	**1,176,313**	1,209,304
Fees and commission expense	**(184,699)**	(227,548)	**(434,224)**	(391,679)
Net fees and commission income	**310,632**	438,983	**742,089**	817,625

24. Net trading income (unaudited)

	3 months ended June 30		6 months ended June 30	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Net gains from dealing in derivatives	**46,724**	13,751	**47,481**	38,429
Net gains from dealing in foreign currencies	**107,657**	66,237	**251,330**	173,975
Net gains/(losses) from trading securities	**1,230**	79	**(4,282)**	758
Net trading income	**155,611**	80,067	**294,529**	213,162

25. Other operating income (unaudited)

	3 months ended June 30		6 months ended June 30	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Property management income	**23,979**	31,107	**61,029**	64,065
Rental income	**19,843**	22,922	**40,623**	35,523
Net gains/(losses) from disposal of investment securities	**85,081**	(1,262)	**130,243**	(758)
Net (losses)/gains arising from retirement of hedges	**(15,451)**	(2,920)	**(15,866)**	2,363
Dividend income	**5,276**	3,658	**10,436**	3,658
Others	**9,463**	9,921	**18,041**	13,221
Total other operating income	**128,191**	63,426	**244,506**	118,072

26. Operating expenses (unaudited)

	3 months ended June 30		6 months ended June 30	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Staff expenses	**582,989**	692,567	**1,270,762**	1,148,142
Depreciation	**98,001**	97,783	**199,053**	154,806
Amoritsation of intangible assets (Note 35)	**23,923**	-	**47,464**	-
General administrative expenses	**320,277**	369,929	**833,321**	650,557
Total operating expenses	**1,025,190**	1,160,279	**2,350,600**	1,953,505

27. Impairment allowances (unaudited)

	3 months ended June 30		6 months ended June 30	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Charge for the period	**773,051**	540,665	**2,756,637**	966,093
Recoveries during the period	**(50,057)**	(53,860)	**(126,722)**	(95,252)
Financial instruments carried at amortised cost – net charge(*)	**722,994**	486,805	**2,629,915**	870,841
Debt instruments designated at FVTOCI - net charge	**64,305**	27,259	**88,376**	16,523
Commitments and contingent liabilities - net (release)/charge	**(119,021)**	27,135	**(167,518)**	(16,242)
Total impairment allowances (Note 10)	**668,278**	541,199	**2,550,773**	871,122

(*) includes net charge of AED 2,526 thousand (for the six month period ended June 30, 2019: AED nil) on investment securities at amortised cost

28. Earnings per share (unaudited)

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.

	3 months ended June 30		6 months ended June 30	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Profit for the period attributable to the equity holders of the Bank	**1,228,457**	1,177,162	**1,435,827**	2,329,473
Less: Coupons paid on capital notes (Note 20)	**-**	(16,914)	**(147,317)**	(121,241)
Net adjusted profit for the period attributable to the equity holders of the Bank (a)	**1,228,457**	1,160,248	**1,288,510**	2,208,232
	Number of shares in thousand		Number of shares in thousand	
Weighted average number of shares in issue throughout the period	**6,957,379**	6,377,440	**6,957,379**	5,791,093
Less: Weighted average number of shares resulting from employees' incentive plan shares	**(6,329)**	(9,039)	**(6,329)**	(9,039)
Weighted average number of equity shares in issue during the period for basic earnings per share (b)	**6,951,050**	6,368,401	**6,951,050**	5,782,054
Add: Weighted average number of shares resulting from employees' incentive plan shares	**6,329**	9,039	**6,329**	9,039
Weighted average number of equity shares in issue during the period for diluted earnings per share (c)	**6,957,379**	6,377,440	**6,957,379**	5,791,093
Basic earnings per share (AED) (a)/(b)	**0.18**	0.18	**0.19**	0.38
Diluted earnings per share (AED) (a)/(c)	**0.18**	0.18	**0.19**	0.38

29. Commitments and contingent liabilities

The Group has the following commitments and contingent liabilities:

	As at June 30 2020 unaudited AED'000	As at December 31 2019 audited AED'000
Letters of credit	**5,447,000**	7,239,078
Guarantees	**58,523,917**	60,261,667
Commitments to extend credit – revocable (*)	**14,958,470**	20,932,010
Commitments to extend credit – irrevocable	**14,455,592**	20,214,940
Total commitments on behalf of customers	**93,384,979**	108,647,695
Commitments for future capital expenditure	**483,480**	486,941
Commitments to invest in investment securities	**81,832**	1,757
Total commitments and contingent liabilities	**93,950,291**	109,136,393

(*) includes AED 8,107,322 thousand (December 31, 2019: AED 7,907,139 thousand) for undrawn credit card limits

30. 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 funds management activities.

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

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

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

30. Operating segments (continued)

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 six month period ended June 30, 2020 (unaudited):

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	1,690,001	1,195,578	1,267,210	14,942	4,167,731
Net income from Islamic financing and investing products	575,488	192,142	196,926	3,598	968,154
Total net interest income and income from Islamic financing and investing products	2,265,489	1,387,720	1,464,136	18,540	5,135,885
Non-interest income	362,041	454,871	351,562	112,650	1,281,124
Operating expenses	(1,513,352)	(596,333)	(146,980)	(93,935)	(2,350,600)
Operating profit before impairment allowances	1,114,178	1,246,258	1,668,718	37,255	4,066,409
Impairment allowances	(696,847)	(1,787,203)	(66,723)	-	(2,550,773)
Operating profit/(loss) after impairment allowances	417,331	(540,945)	1,601,995	37,255	1,515,636
Share in profit of associates	610	-	-	-	610
Profit/(loss) before taxation	417,941	(540,945)	1,601,995	37,255	1,516,246
Overseas income tax expense	(3,764)	(9,332)	(47,390)	-	(60,486)
Loss from discontinued operations	(2,954)	(16,733)	-	-	(19,687)
Profit/(loss) for the period	411,223	(567,010)	1,554,605	37,255	1,436,073
Capital expenditure					114,527
As at June 30, 2020 (unaudited)					
Total assets	110,521,603	167,409,612	126,534,740	1,768,846	406,234,801
Total liabilities	92,020,457	113,302,785	147,111,343	812,294	353,246,879

30. Operating segments (continued)

The following is an analysis of the Group's revenue and results by operating segments for the six month period ended June 30, 2019 (unaudited):

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	1,396,951	957,863	915,262	38,505	3,308,581
Net income from Islamic financing and investing products	308,094	232,885	152,766	5,854	699,599
Total net interest income and income from Islamic financing and investing products	1,705,045	1,190,748	1,068,028	44,359	4,008,180
Non-interest income	495,811	386,783	150,722	115,543	1,148,859
Operating expenses	(1,173,309)	(557,952)	(151,212)	(71,032)	(1,953,505)
Operating profit before impairment allowances	1,027,547	1,019,579	1,067,538	88,870	3,203,534
Impairment allowances	(460,651)	(393,840)	(16,610)	(21)	(871,122)
Operating profit after impairment allowances	566,896	625,739	1,050,928	88,849	2,332,412
Share in profit of associates	5,057	-	-	-	5,057
Profit before taxation	571,953	625,739	1,050,928	88,849	2,337,469
Overseas income tax (expense)/income	(1,666)	(2,624)	124	-	(4,166)
Loss from discontinued operations	(2,691)	-	-	-	(2,691)
Profit for the period	567,596	623,115	1,051,052	88,849	2,330,612
Capital expenditure					96,145
As at December 31, 2019 (restated) (Note 35)					
Total assets	110,473,825	172,749,335	120,176,843	1,694,822	405,094,825
Total liabilities	85,941,571	128,805,940	134,561,783	127,739	349,437,033

The following is an analysis of the Group's revenue and results by operating segments for the three month period ended June 30, 2020 (unaudited):

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	**721,243**	**608,615**	**617,963**	**6,843**	**1,954,664**
Net income from Islamic financing and investing products	**235,126**	**62,553**	**92,657**	**1,590**	**391,926**
Total net interest income and income from Islamic financing and investing products	**956,369**	**671,168**	**710,620**	**8,433**	**2,346,590**
Non-interest income	**136,329**	**206,646**	**201,526**	**49,933**	**594,434**
Operating expenses	**(651,792)**	**(274,565)**	**(57,243)**	**(41,590)**	**(1,025,190)**
Operating profit before impairment allowances	**440,906**	**603,249**	**854,903**	**16,776**	**1,915,834**
Impairment allowances	**(337,632)**	**(263,827)**	**(66,819)**	**-**	**(668,278)**
Operating profit after impairment allowances	**103,274**	**339,422**	**788,084**	**16,776**	**1,247,556**
Share in profit of associates	**11,218**	**-**	**-**	**-**	**11,218**
Profit before taxation	**114,492**	**339,422**	**788,084**	**16,776**	**1,258,774**
Overseas income tax expense	**(498)**	**(4,177)**	**(24,092)**	**-**	**(28,767)**
(Loss)/profit from discontinued operations	**(4,621)**	**1,424**	**-**	**-**	**(3,197)**
Profit for the period	**109,373**	**336,669**	**763,992**	**16,776**	**1,226,810**
Capital expenditure					**48,460**

30. Operating segments (continued)

The following is an analysis of the Group's revenue and results by operating segments for the three month period ended June 30, 2019 (unaudited):

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	764,281	533,570	530,578	27,105	1,855,534
Net income from Islamic financing and investing products	197,935	143,379	100,736	3,832	445,882
Total net interest income and income from Islamic financing and investing products	962,216	676,949	631,314	30,937	2,301,416
Non-interest income	255,481	219,115	43,806	64,074	582,476
Operating expenses	(692,480)	(336,534)	(88,681)	(42,584)	(1,160,279)
Operating profit before impairment allowances	525,217	559,530	586,439	52,427	1,723,613
Impairment allowances	(293,377)	(219,577)	(28,224)	(21)	(541,199)
Operating profit after impairment allowances	231,840	339,953	558,215	52,406	1,182,414
Share in profit of associates	2,308	-	-	-	2,308
Profit before taxation	234,148	339,953	558,215	52,406	1,184,722
Overseas income tax (expense)/income	(1,666)	(2,188)	124	-	(3,730)
Loss from discontinued operations	(2,691)	-	-	-	(2,691)
Profit for the period	229,791	337,765	558,339	52,406	1,178,301
Capital expenditure					44,063

Other disclosures

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

	External (unaudited)		**Inter-segment** (unaudited)	
	6 months ended June 30		**6 months ended June 30**	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Consumer banking	**3,314,483**	2,910,103	**(686,953)**	(709,247)
Wholesale banking	**2,677,769**	2,358,912	**(835,178)**	(781,381)
Investments and treasury	**314,543**	(205,420)	**1,501,155**	1,424,170
Property management	**110,214**	93,444	**20,976**	66,458
Total operating income	**6,417,009**	5,157,039	**-**	-

	External (unaudited)		**Inter-segment** (unaudited)	
	3 months ended June 30		**3 months ended June 30**	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Consumer banking	**1,405,204**	1,607,610	**(312,506)**	(389,913)
Wholesale banking	**1,284,035**	1,365,979	**(406,221)**	(469,915)
Investments and treasury	**202,166**	(143,158)	**709,980**	818,278
Property management	**49,619**	53,461	**8,747**	41,550
Total operating income	**2,941,024**	2,883,892	**-**	-

30. Operating segments (continued)

Geographical information

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

	Domestic (unaudited)		**International** (unaudited)	
	6 months ended June 30		**6 months ended June 30**	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Income				
Net interest and Islamic financing income	**5,001,817**	3,980,812	**134,068**	27,368
Non-interest income	**1,252,295**	1,137,399	**28,829**	11,460

	Domestic (unaudited)		**International** (unaudited)	
	3 months ended June 30		**3 months ended June 30**	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Income				
Net interest and Islamic financing income	**2,282,655**	2,266,745	**63,935**	34,671
Non-interest income	**583,356**	575,233	**11,078**	7,243

	Domestic		**International**	
	As at June 30 2020 unaudited	As at December 31 2019 audited	**As at June 30 2020 unaudited**	As at December 31 2019 audited
	AED'000	AED'000	**AED'000**	AED'000
Non-current assets				
Investment in associates	**378,591**	387,627	**20,071**	20,141
Investment properties	**1,684,448**	1,684,448	**8,842**	9,259
Property and equipment, net	**1,976,054**	2,023,029	**164,646**	174,542
Intangible assets, net (restated) (Note 35)	**7,305,878**	7,353,342	**121,000**	121,000

31. Capital adequacy ratio

The ratio calculated in accordance with Basel III guidelines is as follows:

	As at June 30 2020 unaudited AED'000	As at December 31 2019 restated(*) AED'000
Common equity tier 1 (CET1) capital		
Share capital (Note 18)	**6,957,379**	6,957,379
Share premium	**17,878,882**	17,878,882
Other reserves (Note 19)	**8,621,363**	8,649,013
Retained earnings	**14,801,989**	15,403,049
Non-controlling interests	**1,598**	19,405
Regulatory deductions and adjustments		
Intangible assets, net (Note 35)	**(7,426,878)**	(7,474,342)
Cash flow hedge reserve (Note 19)	**18,899**	10,227
Employee's incentive plan shares, net (Note 19)	**(28,212)**	(30,105)
Revaluation reserve of investments designated at FVTOCI (Note 19)	**(692,916)**	277,328
Total CET1 capital	**40,132,104**	41,690,836
Additional tier 1 (AT1) capital		
Capital notes (Note 20)	**6,000,000**	6,000,000
Total AT1 capital	**6,000,000**	6,000,000
Total tier 1 capital	**46,132,104**	47,690,836
Tier 2 capital		
Eligible general provision	**3,473,886**	3,627,019
Subordinated notes (Note 16)	**960,014**	1,226,060
Total tier 2 capital	**4,433,900**	4,853,079
Total regulatory capital	**50,566,004**	52,543,915
Risk-weighted assets		
Credit risk	**277,910,882**	290,161,492
Market risk	**8,836,742**	8,170,213
Operational risk	**23,219,072**	24,027,523
Total risk-weighted assets	**309,966,696**	322,359,228
CET1 ratio	**12.95%**	12.93%
AT1 ratio	**1.94%**	1.86%
Tier 1 ratio	**14.89%**	14.79%
Tier 2 ratio	**1.42%**	1.51%
Capital adequacy ratio	**16.31%**	16.30%

(*) restated to reflect the effect of IFRS 3 – Business combinations adjustments (refer note 35)

The Central Bank of UAE (CBUAE) has issued a notice CBUAE\BSD\N\2020\1479 dated March 18, 2020, providing guidelines for Targeted Economic Support Scheme (TESS). The notice aims to contain the repercussions of Covid-19 pandemic in the UAE. TESS guidelines are immediately effective and will last for one year starting from March 15, 2020. Banks are allowed the following relief under the TESS:

- Banks can tap into their Capital Conservation Buffer (CCB) up to a maximum of 60% and D-SIB buffer up to 100% without supervisory consequences.

- CBUAE allows banks to apply prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of expected volatility due to the Covid-19 crisis.

32. Related party transactions

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors, chief executive officer and his direct reports.

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

Parent and ultimate controlling party

Abu Dhabi Investment Council Company PJSC holds 60.20% (December 31, 2019 - 60.20%) of the Bank's issued and fully paid up share capital (Note 18). Abu Dhabi Investment Council Company PJSC 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.

For details of related party balances and transactions, refer note 36 in the consolidated financial statements for the year ended December 31, 2019. The related party balances as at June 30, 2020 and transactions for the six month period ended June 30, 2020 are similar in nature and magnitude.

Related party balances and transactions of the Group included in the condensed consolidated interim statement of financial position and condensed consolidated interim 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 June 30, 2020 (unaudited)					
Deposits and balances due from banks	704,091	-	-	-	704,091
Derivative financial instruments – assets	1,640,697	-	-	-	1,640,697
Investment securities	24,176,403	-	-	131,568	24,307,971
Loans and advances to customers	37,160,243	632,560	17,463	186,606	37,996,872
Other assets	367,685	3,848	22	2,916	374,471
Derivative financial instruments – liabilities	1,334,129	-	-	-	1,334,129
Deposits from customers	94,642,919	77,469	43,843	44,893	94,809,124
Borrowings	12,966	-	-	-	12,966
Other liabilities	346,222	1,216	15,667	228	363,333
Capital notes	6,000,000	-	-	-	6,000,000
Commitments and contingent liabilities	9,066,316	14,151	2,448	29,246	9,112,161
Transactions for the six month period ended June 30, 2020 (unaudited)					
Interest, Islamic income, fees and other income	753,203	12,854	344	11,921	778,322
Interest expense and Islamic profit distribution	762,116	500	152	-	762,768
Derivative income	201,661	-	-	-	201,661
Share in profit of associates	-	-	-	610	610
Coupons paid on capital notes	147,317	-	-	-	147,317

33. Fair value hierarchy

Fair value measurements recognised in the condensed consolidated interim financial information

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 11 in respect of valuation methodology used for investment properties.

33. Fair value hierarchy (continued)

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

	Notes	Level 1 Quoted market prices AED'000	Level 2 Observable inputs AED'000	Level 3 Significant unobservable inputs AED'000	Total fair value AED'000	Carrying value AED'000
As at June 30, 2020 (unaudited)						
Assets at fair value						
Derivative financial instruments	**7**	**-**	**14,188,359**	**-**	**14,188,359**	**14,188,359**
Investment securities	**8**					
- At fair value through profit and loss		**55**	**-**	**-**	**55**	**55**
- At fair value through other comprehensive income		**65,796,085**	**5,373,614**	**207,684**	**71,377,383**	**71,377,383**
- At amortised cost		**7,448,994**	**37,351**	**-**	**7,486,345**	**7,176,581**
Investment properties	**11**	**-**	**-**	**1,693,290**	**1,693,290**	**1,693,290**
Total		**73,245,134**	**19,599,324**	**1,900,974**	**94,745,432**	**94,435,668**
Liabilities at fair value						
Derivative financial instruments	**7**	**-**	**14,861,743**	**-**	**14,861,743**	**14,861,743**
Liabilities at amortised cost						
Euro commercial paper	**15**	**-**	**3,374,594**	**-**	**3,374,594**	**3,372,261**
Borrowings	**16**	**15,432,551**	**43,848,260**	**-**	**59,280,811**	**58,644,565**
Total		**15,432,551**	**62,084,597**	**-**	**77,517,148**	**76,878,569**
As at December 31, 2019 (restated) (Note 35)						
Assets at fair value						
Derivative financial instruments	7	15	6,789,702	-	6,789,717	6,789,717
Investment securities	8					
- At fair value through other comprehensive income		65,909,746	7,309,989	222,927	73,442,662	73,442,662
Investment properties	11	-	-	1,693,707	1,693,707	1,693,707
Total		65,909,761	14,099,691	1,916,634	81,926,086	81,926,086
Liabilities at fair value						
Derivative financial instruments	7	-	6,949,891	-	6,949,891	6,949,891
Liabilities at amortised cost						
Euro commercial paper	15	-	2,074,605		2,074,605	2,062,338
Borrowings	16	18,728,489	32,244,310	-	50,972,799	51,882,054
Total		18,728,489	41,268,806	-	59,997,295	60,894,283

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

33. Fair value hierarchy (continued)

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

	As at June 30 2020 unaudited AED'000	As at December 31 2019 restated(*) AED'000
Opening balance	**222,927**	251,843
Acquired on business combinations	**-**	37,554
Purchases, net during the period/year	**-**	18,119
Disposals including capital refunds during the period/year	**(2,853)**	(39,620)
Adjustment through other comprehensive income during the period/year	**(12,390)**	(44,969)
Closing balance	**207,684**	222,927

(*) refer note 35

Loss of AED 1 thousand (for the six month period ended June 30, 2019 – loss of AED 2 thousand) was realised on disposal of Level 3 equity investments designated at FVTOCI and were transferred to retained earnings.

34. 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 condensed consolidated interim financial information if disposed unfavourably.

35. 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.

35. Business combinations (continued)

Purchase consideration and net identifiable assets acquired and liabilities assumed

The purchase consideration (also referred to as "purchase price") of the merger and the acquisition have been allocated to the assets acquired and liabilities assumed using their fair values at the acquisition date. The computation of the purchase consideration and its allocation to the net assets of UNB and AHB based on their respective fair values as of May 1, 2019 and the resulting goodwill is presented below.

(in AED 000, except per share amount)	UNB	AHB
Purchase consideration		
Union National Bank PJSC ordinary shares ('000) (i)	2,751,427	
Exchange ratio (ii)	0.5966	
ADCB ordinary shares issued to UNB shareholders ('000) (i)*(ii)	1,641,501	
April 30, 2019 closing price of ADCB ordinary share	AED 9.88	
	16,218,031	
117,647,058 ADCB ordinary shares issued to AHB shareholder at a conversion price of AED 8.50 per share		1,000,000
Total purchase consideration (a)	**16,218,031**	**1,000,000**
Assets acquired and liabilities assumed		
Assets		
Cash and balances with central banks	9,260,404	3,359,142
Deposits and balances due from banks	2,253,640	3,174,981
Derivative financial instruments	213,240	5,198
Investment securities	17,147,692	3,303,391
Loans and advances to customers	63,994,388	18,434,461
Investment in associates	103,969	93,886
Investment properties	1,119,449	61,350
Other assets	1,709,566	503,518
Property and equipment	538,777	549,590
Intangible assets	562,000	223,000
Assets held for sale	-	257,899
Total assets (b)	**96,903,125**	**29,966,416**
Liabilities		
Due to banks	3,827,597	244,979
Derivative financial instruments	153,121	34,980
Deposits from customers	72,245,927	23,055,240
Borrowings	5,146,658	3,005,769
Other liabilities	3,181,994	1,321,601
Liabilities related to assets held for sale	-	316,930
	84,555,297	**27,979,499**
Tier I capital notes	2,000,000	1,836,500
Non-controlling interests	14,931	-
Total liabilities (c)	**86,570,228**	**29,815,999**
Total identifiable net assets at fair value (d) = (b) – (c)	**10,332,897**	**150,417**
Goodwill arising on business combinations (a) – (d)	**5,885,134**	**849,583**

The net assets recognised in the consolidated financial statements for the year ended December 31, 2019 were based on a provisional assessment of their fair value while the Group continued its valuation exercise for loans and advances to customers, specifically pertaining to retail loans acquired from UNB and AHB. The valuation exercise was not completed by the date when these financial statements were approved for issue by the Board of Directors.

35. Business combinations (continued)

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

During the first quarter of 2020, the valuation exercise was completed and the acquisition date fair value of loans and advances to customers, investment securities and non-controlling interests were changed from their provisional amounts. As a result, there was an increase in goodwill by AED 2,141,845 thousand over the provisional amount. The goodwill is attributable mainly to the synergies expected to be achieved from integration of UNB and AHB into the Group.

Restatement of the statement of financial position as at December 31, 2019

The 2019 comparative information has been restated to reflect the adjustments to the provisional amounts, as stated above.

	As at December 31 2019 (as previously reported) AED'000	Restatement due to IFRS 3 adjustments AED'000	As at December 31 2019 (restated) AED'000
Investment securities	73,440,113	2,549	73,442,662
Loans and advances to customers, net	250,017,326	(2,184,246)	247,833,080
Intangible assets, net	5,332,497	2,141,845	7,474,342
Non-controlling interests	59,257	(39,852)	19,405

The total intangible assets as at June 30, 2020 is as follows:

		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	4,592,872	244,000	457,000	84,000	5,377,872
As at December 31, 2019 (as previously reported)	4,611,672	244,000	457,000	84,000	5,396,672
Effect of IFRS 3 adjustments	2,141,845	-	-	-	2,141,845
As at December 31, 2019 (restated)	**6,753,517**	**244,000**	**457,000**	**84,000**	**7,538,517**
Additions during the period	-	-	-	-	-
As at June 30, 2020 (unaudited)	**6,753,517**	**244,000**	**457,000**	**84,000**	**7,538,517**
Accumulated amortisation					
As at January 1, 2019	-	-	-	-	-
Amortisation during the period	-	-	54,004	10,171	64,175
As at December 31, 2019	-	-	**54,004**	**10,171**	**64,175**
Amortisation during the period	-	-	**39,941**	**7,523**	**47,464**
As at June 30, 2020 (unaudited)	-	-	**93,945**	**17,694**	**111,639**
Carrying amount					
As at June 30, 2020 (unaudited)	**6,753,517**	**244,000**	**363,055**	**66,306**	**7,426,878**
As at December 31, 2019 (restated)	6,753,517	244,000	402,996	73,829	7,474,342

Goodwill has been allocated to three cash generating units namely consumer banking, wholesale banking and investment and treasury.

35. Business combinations (continued)

Impact of business combinations on Group's condensed consolidated interim income statement

If the aforesaid business combinations had occurred on January 1, 2019, the Group's total operating income and profit before tax from continuing operations would be AED 6,646,860 thousand and AED 2,812,333 thousand respectively for the six month period ended June 30, 2019.

Business combination related costs

The Group incurred integration and transaction costs of AED 165,291 thousand (for the six month period ended June 30, 2019 – AED 42,886 thousand) during the period. These costs have been included in 'operating expenses' in the condensed consolidated interim income statement.