BASEL II —
PILLAR III

بنك أبوظبي التجاري
ADCB

Abu Dhabi Commercial Bank PJSC

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1 SUMMARY OF DIFFERENCES BETWEEN PILLAR III DISCLOSURES AND RISK REVIEW

The details included in this report are from a regulatory perspective on certain aspects of credit, market and operational risk. The quantitative disclosures will not be directly comparable with the risk review in audited consolidated financial statements as the former are largely based on the Basel II standardised approach rules whereas quantitative risk disclosures in the audited consolidated financial statements are based on International Financial Reporting Standards (IFRS). This is most pronounced for the credit risk disclosures, where credit exposure is defined as the maximum loss the Bank has estimated under specified Basel II rules. This differs from similar information in the audited consolidated financial statements, which is mainly reported as at the balance sheet date and, therefore, does not reflect the likelihood of future drawings of committed credit lines. Further, the off-balance sheet exposures are post credit conversion factors (CCFs) and may not reflect the off-balance sheet exposures reported in the risk review section in audited consolidated financial statements.

Topic	Audited consolidated financial statements	Pillar III disclosures
Basis of requirements	The Bank's Annual Report is prepared in accordance with the requirements of IFRS and UAE federal Law No. 8 of 1984.	The Bank's Pillar III disclosures provide detail on risk from a regulatory perspective as required by the Basel II standardised approach requirements, which have been implemented in the UAE through Central Bank of UAE guidelines issued in November 2009.
Basis of preparation	▶ The quantitative credit risk disclosures in the risk review are set out based on IFRS. ▶ Loans and advances are analysed net of impairment and interest in suspense and off-balance sheet exposures are considered at maximum exposure levels. ▶ Market risk disclosures are presented using VaR methodology and sensitivity analysis for the trading and non-trading books.	▶ Provides details from a regulatory perspective on credit, market risk and operational risk. The capital calculation and the disclosures are based on the standardised approach as recommended by the Central Bank of UAE. ▶ Loans and advances are analysed gross of impairment and off-balance sheet exposures are disclosed at post-CCF levels. ▶ Market risk and operational risk disclosures are based on the capital required.

2 SUMMARY OF CROSS-REFERENCES BETWEEN PILLAR III DISCLOSURES AND RISK REVIEW

Topic	Audited consolidated financial statements	Pillar III disclosures
Credit risk management, measurement and risk grading	▶ An overview of credit, liquidity and market risk management and measurement along with the quantitative disclosures are set out in Notes 41, 43 and 45 to the audited financial statements respectively. ▶ Maximum exposure to credit risk net of impairment and interest in suspense and credit risk concentration are provided in Notes 41.1 and 41.2 to the audited consolidated financial statements. ▶ Internal credit risk grading analysis provided by business for loans neither past due nor impaired and available-for-sale investments are provided in Notes 41.6 and 41.7 to the audited consolidated financial statements. ▶ Note 50 to the audited consolidated financial statements provides the overall capital adequacy of the Bank split into Tier 1 and Tier 2 ratios.	▶ A detailed analysis of credit risk exposure and risk-weighted assets (RWA) calculated according to the standardised approach is set out in sections 10 and 11 of this report. ▶ A more detailed analysis of credit risk exposure pre- and post-credit risk mitigants (CRM) and after applying credit conversion factors (CCFs) to the off-balance sheet exposure is disclosed in sections 10 and 11 of this report. ▶ Section 11 of this report provides an indicative mapping of the Bank's rated and unrated exposure. ▶ Minimum regulatory capital requirements for credit, market and operational risk are set out in section 8 of this report.
Credit risk mitigation	An overview of CRM is provided in Note 41.4 to the audited consolidated financial statements.	Provides description of total CRM held by the Bank and those eligible from a regulatory perspective. This report also provides total exposure post- and pre-CRM (eligible under Basel II standardised approach). The eligible collaterals for the Bank's standardised portfolio are also disclosed in section 16 of this report.
Concentration of credit risk	Disclosures on concentration of credit risk by geography, economic and industry sector are provided in Note 41.2 to the audited consolidated financial statements.	Disclosures on concentration of credit risk by geography, currency, economic sector and residual maturity calculated based on the Basel II rules are provided in sections 12, 13, 14 and 15 of this report.
Credit risk management and impairment allowance	Provisioning approach and definition of impaired loans along with disclosures of impaired loans, past due but not impaired loans, past due and impaired loans, individual impairment charge and collective impairment charge are set out in Notes 41.5 and 41.8 to the audited consolidated financial statements.	Disclosures of impaired loans, impairment balance and interest in suspense by geography and economic sector are set out in section 17.
Market Risk	Description of market risk management and measurement along with quantitative disclosures on VaR and sensitivity analysis are set out in Note 45 to the audited consolidated financial statements.	Sections 18 and 19 of this report provide quantitative disclosures of capital requirements for market risk (including equity risk).
Operational risk	Provide an overview of operational risk.	A detailed description of operational risk including information system and regulatory risk faced by the Bank is set out in section 20.

3 OVERVIEW OF BASEL II REQUIREMENTS

The Bank complies with the Basel II framework which has been implemented in the UAE through the Central Bank of UAE guidelines issued in November 2009. Basel II is structured around three 'pillars' which are outlined below:

Pillar I deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, market risk and operational risk. Other risks are not considered fully quantifiable at this stage;

Pillar II allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risk types, or to cover other risks. A bank's own internal models and assessments support this process. The second pillar deals with the regulatory response to the first pillar, giving regulators much-improved tools over those available to them under Basel I. It also provides a framework for dealing with all the other risks a bank may face, such as systemic risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk, which the accord combines under the title of residual risk. This risk and capital assessment is commonly referred to as Internal Capital Adequacy Assessment Process (ICAAP).

Pillar III covers external communication of risk and capital information by banks as specified in the Basel rules. The aim of Pillar III is to provide a consistent and comprehensive disclosure framework by requiring institutions to disclose details on the scope of application, capital, risk exposures, risk assessment processes and the capital adequacy of the institution. It must be consistent with how the senior management, including the board, assess and manage the risks of the institution.

This report should be read in conjunction with the risk disclosures in the Annual Report and audited consolidated financial statements.

Basel II also provides for different approaches to calculating capital requirements.

Standardised approach — Under this approach the assets (including off-balance sheet post-CCF) are classified into asset types to enable better risk sensitivity. The risk weights used to assess capital requirements against credit exposures are consistent across the industry.

Internal-ratings-based approach (IRB) — Under this approach the risk weights are derived from the Bank's internal models. The IRB approach is further sub-divided into two alternative applications, Advanced and Foundation:

- **Foundation IRB (FIRB)** — Under this approach the banks are allowed to develop their own models to estimate the PD (probability of default) for individual clients or groups of clients and use supervisory values for LGD (loss given default) and EAD (exposure at default) estimates. Banks can use this approach only subject to approval from their local regulators.
- **Advanced IRB (AIRB)** — Under this approach the banks are allowed to develop their own model to quantify required capital for credit risk. PD, LGD and EAD can be determined using the Bank's internal models. Banks can use this approach only subject to approval from their local regulators.

4 ADCB'S APPROACH TO PILLAR I

Credit risk — The Bank uses the standardised approach for calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weights are determined by the asset class and the external rating of the counterparty. The net exposure incorporates off-balance sheet exposures after applying the credit conversion (CCF) and credit risk mitigation (CRM) factors.

Market risk — For the regulatory market risk capital requirements, the Bank uses the standardised approach.

Operational risk — The Bank uses the standardised approach for computing capital requirements for operational risk.

5 FUTURE DEVELOPMENTS

The regulation and supervision of financial institutions continues to undergo significant change in response to the global financial crisis.

In December 2010, the Basel Committee issued final rules in two documents: A global regulatory framework for more resilient banks and banking systems and an international framework for liquidity risk measurement, standards and monitoring, which together are commonly referred to as 'Basel III'. Basel III will require banks to hold 4.5% of common equity (up from 2% in Basel II) and 6% of Tier I capital (up from 4% in Basel II) of risk-weighted assets (RWA). Basel III also introduces additional capital buffers, (i) a mandatory capital conservation buffer of 2.5% and (ii) a discretionary countercyclical buffer, which allows national regulators to require up to another 2.5% of capital during periods of high credit growth. In addition, Basel III introduces a minimum 3% leverage ratio and two required liquidity ratios. The Liquidity Coverage Ratio requires a bank to hold sufficient high-quality liquid assets to cover its total net cash flows over 30 days; the Net Stable Funding Ratio requires the available amount of stable funding to exceed the required amount of stable funding over a one-year period of extended stress. Basel III has not yet been officially implemented by the UAE Central Bank, and ADCB monitors the LCR, NSFR and leverage ratio set by the Basel III requirements for internal purposes only.

IMPACT ON ADCB

At the end of 2013, the capital ratio and the Tier 1 ratio of the Bank were 21.21% and 16.62%, respectively. Additionally, the composition of the Bank's capital is of high quality and is equity based with lesser reliance on Tier 2 capital supply (i.e., hybrid instruments). Further, the UAE Central Bank has a set total capital adequacy ratio of 12% and Tier 1 capital adequacy ratio of 8%, which are higher than the target 2019 Basel III ratios of 6% and 8%, respectively.

BASIS OF CONSOLIDATION

The Bank's Pillar III disclosures are presented on a consolidated basis for the year ended 31 December 2013. The consolidation basis used is the same as that used for regulatory capital adequacy.

6 VERIFICATION

The Pillar III disclosures for the year ended 31 December 2013 have been appropriately verified internally, but are not subject to audit by the Bank's external auditor.

7 RISK PROFILE OF ADCB

The Government of Abu Dhabi indirectly owns 58.08% of the Bank's issued share capital via the Abu Dhabi Investment Council. ADCB enjoys strong government support as evidenced by historical capital, liquidity and strategic support by its de-facto owners. The Chairman, Vice-Chairman and four out of nine members of the Board have been nominated by Abu Dhabi Investment Council.

ADCB's capital is at industry-leading levels. Current capital adequacy ratio and Tier 1 capital ratio are 21.21% and 16.62%, respectively.

8 CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

CAPITAL ALLOCATION

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

REGULATORY CAPITAL REQUIREMENTS

The quantitative disclosure of capital structure is set out in in Note 50 of the audited consolidated financial statements. The table below presents the minimum regulatory capital requirements, calculated as 12% of RWA based on the approaches described above in section 2.

	2013		2012	
	Capital charge (AED'000)	**Capital ratio**	Capital charge (AED'000)	Capital ratio
Capital requirements				
1 **Credit risk**				
Standardised approach	**16,171,147**		15,373,615	
2 **Market risk**				
Standardised approach	**586,809**		449,945	
3 **Operational risk**				
Standardised approach	**866,010**		783,194	
Total capital requirement	**17,623,966**		16,606,754	
Capital ratios:				
Total for the Bank		**21.21%**		23.05%
Tier 1 for the Bank		**16.62%**		17.47%

9 QUALITATIVE RISK DISCLOSURE

For each separate risk area (credit, market, operational and equity risk) banks are required to describe their risk management objectives and policies, which primarily include strategies, processes, organisation framework, reporting and measurement systems. These disclosures are discussed and are set out in the "Risk Management" section of the Annual Report and Notes 41 to 46 of the audited consolidated financial statements. Also, refer to section 2 of this report for cross-referencing information.

10 GROSS CREDIT RISK EXPOSURE — STANDARDISED APPROACH OF BASEL II (ASSET CLASS)

AED'000

	On-balance sheet	Off-balance sheet		Credit risk mitigation (CRM)			
Asset class	Gross outstanding	Net exposure after credit conversion factors (CCF)	Total gross exposure	Exposure before CRM	CRM	Exposure post-CRM	Risk-weighted assets
2013							
Claims on sovereigns	**14,782,915**	**137,743**	**14,920,658**	**14,920,659**	**–**	**14,920,659**	**116,615**
Claims on non-central government public sector entities (PSEs)	**31,253,229**	**1,884,333**	**33,137,562**	**32,521,660**	**694,051**	**31,827,610**	**23,229,973**
Claims on multilateral development banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Claims on banks	**23,217,370**	**6,525,562**	**29,742,932**	**29,742,933**	**2,656,894**	**27,086,039**	**13,388,196**
Claims on securities firms	**1,977,078**	**452,130**	**2,429,208**	**2,429,208**	**8,733**	**2,420,475**	**2,509,144**
Claims on corporates	**33,436,517**	**12,279,240**	**45,715,757**	**45,308,108**	**10,075,778**	**35,232,329**	**35,260,868**
Claims included in the regulatory retail portfolio	**23,059,242**	**366,851**	**23,426,093**	**23,249,083**	**3,922,286**	**19,326,798**	**15,490,024**
Claims secured by residential property	**4,837,481**	**232,448**	**5,069,929**	**5,051,630**	**14,160**	**5,037,471**	**2,489,911**
Claims secured by commercial real estate	**40,264,139**	**–**	**40,264,139**	**39,682,444**	**3,803,201**	**35,879,243**	**35,878,589**
Past due loans	**6,438,348**	**–**	**6,438,348**	**3,434,918**	**731,036**	**2,703,882**	**3,202,297**
Higher-risk categories	**316,453**	**–**	**316,453**	**316,453**	**–**	**316,453**	**474,680**
Other assets	**8,921,427**	**–**	**8,921,427**	**8,921,427**	**–**	**8,921,427**	**2,719,266**
Claims on securitised assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Credit derivatives (banks selling protection)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total credit risk	**188,504,200**	**21,878,307**	**210,382,507**	**205,578,524**	**21,906,139**	**183,672,386**	**134,759,561**
2012							
Claims on sovereigns	15,782,516	375,548	16,158,064	16,158,064	–	16,158,064	85,188
Claims on non-central government public sector entities (PSEs)	29,965,947	1,682,260	31,648,207	30,887,202	1,129,932	29,757,270	18,012,927
Claims on multilateral development banks	–	–	–	–	–	–	–
Claims on banks	24,515,960	6,475,064	30,991,024	30,973,998	2,713,668	28,260,330	13,264,404
Claims on securities firms	2,719,940	600,857	3,320,797	3,050,797	66,621	2,984,176	2,899,825
Claims on corporates	33,103,540	13,849,745	46,953,284	46,810,628	9,783,830	37,026,799	37,029,687
Claims included in the regulatory retail portfolio	19,717,172	473,820	20,190,992	20,045,190	4,301,159	15,744,031	12,541,373
Claims secured by residential property	4,357,609	265,177	4,622,786	4,619,988	7,801	4,612,187	2,045,084
Claims secured by commercial real estate	36,101,269	–	36,101,269	35,823,477	664,052	35,159,425	35,159,344
Past due loans	7,427,056	–	7,427,056	4,034,370	865,098	3,169,271	3,866,403
Higher-risk categories	276,804	–	276,804	276,804	–	276,804	415,207
Other assets	9,263,458	–	9,263,458	9,263,458	–	9,263,458	2,794,018
Claims on securitised assets	–	–	–	–	–	–	–
Credit derivatives (banks selling protection)	–	–	–	–	–	–	–
Total credit risk	183,231,270	23,722,471	206,953,741	201,943,976	19,532,160	182,411,816	128,113,458

11 GROSS CREDIT RISK EXPOSURE — STANDARDISED APPROACH OF BASEL II (RATED/UNRATED)

AED'000

Asset class	Rated	Unrated	Total gross exposure	Exposure before CRM	CRM	Exposure post-CRM	RWA post CRM
2013							
Claims on sovereigns	**14,920,659**	**–**	**14,920,659**	**14,920,659**	**–**	**14,920,659**	**116,615**
Claims on non-central government public sector entities (PSEs)	**11,245,706**	**21,891,856**	**33,137,561**	**32,521,660**	**694,051**	**31,827,610**	**23,229,973**
Claims on multilateral development banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Claims on banks	**28,468,586**	**1,274,347**	**29,742,933**	**29,742,933**	**2,656,894**	**27,086,039**	**13,388,196**
Claims on securities firms	**1,372,597**	**1,056,611**	**2,429,208**	**2,429,208**	**8,733**	**2,420,475**	**2,509,144**
Claims on corporates	**1,283,136**	**44,432,621**	**45,715,756**	**45,308,108**	**10,075,778**	**35,232,329**	**35,260,868**
Claims included in the regulatory retail portfolio	**–**	**23,426,093**	**23,426,093**	**23,249,083**	**3,922,286**	**19,326,798**	**15,490,024**
Claims secured by residential property	**–**	**5,069,929**	**5,069,929**	**5,051,630**	**14,160**	**5,037,471**	**2,489,911**
Claims secured by commercial real estate	**–**	**40,264,139**	**40,264,139**	**39,682,444**	**3,803,201**	**35,879,243**	**35,878,589**
Past due loans	**–**	**6,438,348**	**6,438,348**	**3,434,918**	**731,036**	**2,703,882**	**3,202,297**
Higher-risk categories	**–**	**316,453**	**316,453**	**316,453**	**–**	**316,453**	**474,680**
Other assets	**–**	**8,921,427**	**8,921,427**	**8,921,427**	**–**	**8,921,427**	**2,719,266**
Claims on securitised assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Credit derivatives (banks selling protection)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total credit risk	**57,290,684**	**153,091,823**	**210,382,507**	**205,578,524**	**21,906,139**	**183,672,386**	**134,759,561**
2012							
Claims on sovereigns	16,158,064	–	16,158,064	16,158,064	–	16,158,064	85,188
Claims on non-central government public sector entities (PSEs)	16,286,841	15,361,365	31,648,207	30,887,202	1,129,932	29,757,270	18,012,927
Claims on multilateral development banks	–	–	–	–	–	–	–
Claims on banks	28,838,090	2,152,934	30,991,024	30,973,998	2,713,668	28,260,330	13,264,404
Claims on securities firms	888,443	2,432,354	3,320,797	3,050,797	66,621	2,984,176	2,899,825
Claims on corporates	478,454	46,474,830	46,953,284	46,810,628	9,783,830	37,026,799	37,029,687
Claims included in the regulatory retail portfolio	–	20,190,992	20,190,992	20,045,190	4,301,159	15,744,031	12,541,373
Claims secured by residential property	–	4,622,786	4,622,786	4,619,988	7,801	4,612,187	2,045,084
Claims secured by commercial real estate	–	36,101,269	36,101,269	35,823,477	664,052	35,159,425	35,159,344
Past due loans	–	7,427,056	7,427,056	4,034,370	865,098	3,169,271	3,866,403
Higher-risk categories	–	276,804	276,804	276,804	–	276,804	415,207
Other assets	–	9,263,458	9,263,458	9,263,458	–	9,263,458	2,794,018
Claims on securitised assets	–	–	–	–	–	–	–
Credit derivatives (banks selling protection)	–	–	–	–	–	–	–
Total credit risk	62,649,892	144,303,849	206,953,741	201,943,976	19,532,160	182,411,816	128,113,458

12 GROSS CREDIT RISK EXPOSURE BY CURRENCY

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
2013									
AED	**113,989,831**	**66,690**	**15,529,458**	**129,585,979**	**1,031,002**	**1,748,080**	**4,144,931**	**6,924,012**	**136,509,991**
USD	**22,049,975**	**19,476,222**	**8,321,386**	**49,847,583**	**593,855**	**3,647,797**	**8,223,354**	**12,465,007**	**62,312,590**
EUR	**18,636**	**546,397**	**761,446**	**1,326,479**	**–**	**153,559**	**548,304**	**701,863**	**2,028,343**
CHF	**–**	**–**	**214,865**	**214,865**	**–**	**206,961**	**–**	**206,961**	**421,826**
GBP	**18,817**	**–**	**484,610**	**503,427**	**–**	**113,392**	**28,758**	**142,150**	**645,577**
MYR	**–**	**–**	**35,382**	**35,382**	**–**	**81,784**	**–**	**81,784**	**117,166**
Other	**2,461,358**	**520,719**	**5,086,997**	**8,069,074**	**–**	**64,495**	**1,292,033**	**1,356,529**	**9,425,602**
Add: Interest in suspense	**1,062,136**	**–**	**–**	**1,062,136**	**–**	**–**	**–**	**–**	**1,062,136**
Less: Acceptances	**–**	**–**	**(2,140,725)**	**(2,140,725)**	**–**	**–**	**–**	**–**	**(2,140,725)**
Total	**139,600,753**	**20,610,028**	**28,293,419**	**188,504,200**	**1,624,857**	**6,016,069**	**14,237,380**	**21,878,307**	**210,382,507**
2012									
AED	114,970,797	858,076	19,029,636	134,858,509	1,228,711	2,556,983	4,511,434	8,297,127	143,155,636
USD	12,431,945	16,822,719	13,069,828	42,324,492	331,555	4,423,025	7,933,631	12,688,211	55,012,703
EUR	41,302	535,964	2,313,092	2,890,358	–	239,592	625,855	865,447	3,755,806
CHF	–	–	26,151	26,151	–	137,164	43	137,208	163,359
GBP	425	–	381,998	382,423	–	39,997	12,262	52,259	434,682
MYR	–	–	17,063	17,063	–	136,155	–	136,155	153,218
Other	2,214,547	290,112	4,163,030	6,667,689	–	128,499	1,417,565	1,546,064	8,213,753
Add: Interest in suspense	802,628	–	–	802,628	–	–	–	–	802,628
Less: Acceptances	–	–	(4,738,044)	(4,738,044)	–	–	–	–	(4,738,044)
Total	130,461,644	18,506,871	34,262,755	183,231,270	1,560,266	7,661,415	14,500,790	23,722,471	206,953,741

13 GROSS CREDIT EXPOSURE BY GEOGRAPHY

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
2013									
Domestic (UAE)	**130,833,431**	**10,574,408**	**20,916,843**	**162,324,682**	**1,614,429**	**2,085,564**	**11,640,656**	**15,340,649**	**177,665,331**
Other GCC countries	**3,284,019**	**2,620,186**	**4,689,931**	**10,594,136**	**–**	**2,171**	**741,014**	**743,185**	**11,337,321**
Other Arab countries	**33,378**	**–**	**39,715**	**73,093**	**–**	**605**	**24,752**	**25,357**	**98,450**
Asia	**2,313,147**	**867,262**	**793,140**	**3,973,550**	**–**	**33,868**	**854,261**	**888,129**	**4,861,678**
Europe	**1,203,223**	**3,199,813**	**3,158,744**	**7,561,780**	**–**	**3,613,913**	**607,354**	**4,221,267**	**11,783,047**
USA	**391**	**2,951,625**	**779,382**	**3,731,398**	**10,428**	**204,082**	**128,366**	**342,876**	**4,074,274**
Rest of the world	**871,028**	**396,733**	**56,389**	**1,324,150**	**–**	**75,866**	**240,978**	**316,844**	**1,640,993**
Add: Interest in suspense	**1,062,136**	**–**	**–**	**1,062,136**	**–**	**–**	**–**	**–**	**1,062,136**
Less: Acceptances	**–**	**–**	**(2,140,725)**	**(2,140,725)**	**–**	**–**	**–**	**–**	**(2,140,725)**
Total	**139,600,753**	**20,610,028**	**28,293,419**	**188,504,200**	**1,624,857**	**6,016,069**	**14,237,380**	**21,878,307**	**210,382,507**
2012									
Domestic (UAE)	124,707,901	8,555,934	26,945,957	160,209,792	1,447,606	3,247,302	12,364,445	17,059,353	177,269,145
Other GCC countries	2,400,188	2,173,274	4,567,098	9,140,560	98,483	2,613	515,525	616,620	9,757,180
Other Arab countries	134,724	–	21,008	155,732	–	–	33,694	33,694	189,426
Asia	1,082,622	1,278,835	1,276,078	3,637,535	79	144,160	379,319	523,558	4,161,093
Europe	124,361	3,303,639	5,644,265	9,072,265	565	3,070,191	673,165	3,743,921	12,816,185
USA	210	2,903,035	336,186	3,239,431	13,533	1,135,391	482,378	1,631,303	4,870,734
Rest of the world	1,209,010	292,154	210,207	1,711,371	–	61,758	52,264	114,022	1,825,393
Add: Interest in suspense	802,628	–	–	802,628	–	–	–	–	802,628
Less: Acceptances	–	–	(4,738,044)	(4,738,044)	–	–	–	–	(4,738,044)
Total	130,461,644	18,506,871	34,262,755	183,231,270	1,560,266	7,661,415	14,500,790	23,722,471	206,953,741

14 GROSS CREDIT EXPOSURE BY RESIDUAL MATURITY

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
2013									
Less than 3 months	**18,530,603**	**907,000**	**21,698,147**	**41,135,750**	**68,291**	**363,098**	**11,240,110**	**11,671,498**	**52,807,248**
3 months to less than 6 months	**6,329,907**	**2,431,622**	**3,068,089**	**11,829,618**	**56,136**	**120,334**	**758,047**	**934,517**	**12,764,135**
6 months to less than 1 year	**2,678,998**	**3,209,989**	**1,147,270**	**7,036,257**	**92,945**	**250,361**	**1,619,847**	**1,963,153**	**8,999,410**
1 year to 3 years	**16,632,585**	**9,948,185**	**486,098**	**27,066,868**	**1,141,408**	**1,018,250**	**579,353**	**2,739,011**	**29,805,878**
Over 3 years	**94,366,524**	**4,113,232**	**4,034,540**	**102,514,296**	**266,077**	**4,264,026**	**40,024**	**4,570,128**	**107,084,424**
Add: Interest in suspense	**1,062,136**	**–**	**–**	**1,062,136**	**–**	**–**	**–**	**–**	**1,062,136**
Less: Acceptances	**–**	**–**	**(2,140,725)**	**(2,140,725)**	**–**	**–**	**–**	**–**	**(2,140,725)**
Total	**139,600,753**	**20,610,028**	**28,293,419**	**188,504,200**	**1,624,857**	**6,016,069**	**14,237,380**	**21,878,307**	**210,382,507**
2012									
Less than 3 months	17,813,742	417,348	27,909,578	46,140,668	114,001	538,651	4,034,970	4,687,621	50,828,289
3 months to less than 6 months	5,615,131	768,592	2,937,861	9,321,583	308,664	180,080	1,929,743	2,418,488	11,740,071
6 months to less than 1 year	8,945,923	254,422	2,205,592	11,405,937	140,201	979,312	742,502	1,862,015	13,267,952
1 year to 3 years	15,367,342	11,120,669	677,968	27,165,979	748,350	1,158,492	7,541,891	9,448,733	36,614,712
Over 3 years	81,916,878	5,945,840	5,269,801	93,132,519	249,051	4,804,879	251,684	5,305,614	98,438,133
Add: Interest in suspense	802,628	–	–	802,628	–	–	–	–	802,628
Less: Acceptances	–	–	(4,738,044)	(4,738,044)	–	–	–	–	(4,738,044)
Total	130,461,644	18,506,871	34,262,755	183,231,270	1,560,266	7,661,415	14,500,790	23,722,471	206,953,741

15 GROSS CREDIT EXPOSURE BY ECONOMIC SECTOR

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
2013									
Agriculture	**215,777**	**–**	**575**	**216,352**	**–**	**–**	**85,084**	**85,084**	**301,436**
Energy	**710,656**	**1,377,354**	**361,414**	**2,449,424**	**77,485**	**327,963**	**423,652**	**829,100**	**3,278,524**
Trading	**2,327,883**	**342,066**	**1,220,032**	**3,889,980**	**55,095**	**–**	**2,345,699**	**2,400,794**	**6,290,774**
Real estate & hospitality	**52,437,689**	**1,869,552**	**1,407,817**	**55,715,058**	**726,827**	**360,580**	**4,327,601**	**5,415,007**	**61,130,066**
Transport	**1,231,984**	**784,697**	**308,644**	**2,325,325**	**358**	**312,112**	**278,908**	**591,378**	**2,916,703**
Personal	**30,290,585**	**–**	**600,228**	**30,890,813**	**365,953**	**6,035**	**515,441**	**887,429**	**31,778,242**
Government & public sector entities	**32,250,697**	**2,998,565**	**10,415,521**	**45,664,783**	**129,626**	**31,220**	**814,233**	**975,078**	**46,639,861**
Financial institutions	**14,832,872**	**10,435,590**	**13,158,006**	**38,426,468**	**20,691**	**4,230,797**	**1,938,618**	**6,190,105**	**44,616,574**
Manufacturing	**1,309,765**	**–**	**162,772**	**1,472,537**	**187,470**	**3,802**	**1,012,757**	**1,204,028**	**2,676,565**
Services	**1,939,362**	**2,802,204**	**675,668**	**5,417,234**	**61,354**	**726,984**	**2,486,302**	**3,274,639**	**8,691,873**
Others	**991,347**	**–**	**2,123,469**	**3,114,816**	**–**	**16,577**	**9,086**	**25,663**	**3,140,479**
Add: Interest in suspense	**1,062,136**	**–**	**–**	**1,062,136**	**–**	**–**	**–**	**–**	**1,062,136**
Less: Acceptances	**–**	**–**	**(2,140,725)**	**(2,140,725)**	**–**	**–**	**–**	**–**	**(2,140,725)**
Total	**139,600,753**	**20,610,028**	**28,293,419**	**188,504,200**	**1,624,857**	**6,016,069**	**14,237,380**	**21,878,307**	**210,382,507**
2012									
Agriculture	196,610	–	12,356	208,966	–	–	670	670	209,636
Energy	703,753	1,092,267	33,357	1,829,378	98,054	791,312	65,568	954,934	2,784,312
Trading	1,256,911	253,712	1,216,364	2,726,987	–	247,040	656,914	903,954	3,630,941
Real estate & hospitality	51,760,260	2,054,569	1,983,957	55,798,787	463,264	2,277	4,451,263	4,916,804	60,715,591
Transport	954,982	626,383	334,454	1,915,819	–	2	108,537	108,539	2,024,358
Personal	27,617,518	–	59,898	27,677,416	435,522	107,982	201,194	744,698	28,422,114
Government & public sector entities	32,441,505	5,135,933	10,422,745	48,000,183	–	89,160	191,237	280,397	48,280,580
Financial institutions	11,002,886	9,274,503	20,683,032	40,960,421	212,764	5,874,178	2,080,445	8,167,387	49,127,808
Manufacturing	1,281,100	–	207,247	1,488,347	–	10,523	450,028	460,551	1,948,898
Services	1,254,035	69,503	2,007,675	3,331,212	350,662	538,940	6,294,934	7,184,536	10,515,748
Others	1,189,455	–	2,039,714	3,229,169	–	–	–	–	3,229,169
Add: Interest in suspense	802,628	–	–	802,628	–	–	–	–	802,628
Less: Acceptances	–	–	(4,738,044)	(4,738,044)	–	–	–	–	(4,738,044)
Total	130,461,644	18,506,871	34,262,755	183,231,270	1,560,266	7,661,415	14,500,790	23,722,471	206,953,741

The Central Bank of UAE vide notice no. 3823/2012 dated 14/11/2012 has instructed all banks to report on new banking return forms which are more extensive and granular than the existing reports. As a result, among other things, economic sector definitions and classifications were further refined and expanded from 40 to 91 sectors. During 2013, the Bank, based on the new circular, revisited the economic sector classification for its credit risk exposure. Accordingly, the economic sector of the credit risk exposure was reclassified for prior year Pillar III disclosures to conform to the current year's presentation.

16 CREDIT RISK MEASUREMENT AND MITIGATION POLICIES

Loans and advances to customers and investment in securities held in the AFS portfolio are the main sources of credit risk for the Bank. The Bank's risk management policies and processes are designed to identify, analyse and measure risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data review. The Bank assesses the probability of default of each counterparty using internal rating tools tailored for various categories of counterparties.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits or taking pre-emptive action through additional collateral/margin calls, structural enhancements, etc., where appropriate.

The Credit Risk Management Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be secured to mitigate credit risk, including valuation parameters, review frequency and independence of valuation.

The acceptable collateral types are set out in the credit policy of the Bank, which is approved by the BRCC. The type, liquidity and realisation costs on collateral held are key determinants of the LGD percentage that is assigned to a credit risk exposure.

The Bank primarily has the following categories of collateral:

LOANS AND ADVANCES

(a) Real estate collateral — The Bank accepts real estate collateral (residential, commercial and mixed use) to either back corporate exposures or as income-producing real estate as the repayment source for the facility. Both of these segments are treated separately and governed by separate policies. In all cases, real estate collaterals are subject to regular re-evaluation by Bank-approved valuers and mortgage registration with the appropriate regulatory authorities. In lending new facilities the Bank has a policy to obtain multiple valuations (based on the facility size) to ensure conservatism in determining LTV. As at 31 December 2013, the Bank has total mortgage collateral of AED 76,003 mn, almost all of it in the UAE and over 50% in Abu Dhabi and the rest across other emirates.

(b) Financial instruments collateral — Only publicly listed company shares are accepted as collateral for corporate and high-net-worth individual facilities. There is a process to evaluate mark to market on a daily basis and this affects the drawing power against these facilities. All shares collaterals are pledged either at the market or at the broker level. These would also include a small amount of bonds and mutual funds. As at 31 December 2013, the Bank has total share collateral of AED 33,340 mn, predominantly listed in the Abu Dhabi Stock Exchange.

(c) Cash collateral — The Bank also takes a small amount of cash collateral primarily from SME customers and as trade margins for trade finance transactions. As at 31 December 2013, the Bank has AED 3,523 mn in cash and near-cash collaterals.

(d) Guarantees from highly rated banks and corporates — The Bank regularly accepts guarantees from highly rated corporates or banks and transfers the risk of the exposure to the better rated entities. Almost all company loans have the corporate guarantee of the parent. All the guarantees are executed using the Bank standard legal documentation and to be used as a credit risk mitigant, they should be unconditional guarantees.

(e) Charge over company's assets, including stock debtors and work in progress — The Bank regularly obtains the company's assets inventory and stock debtors as collateral whilst extending working capital facilities to them.

(f) Charge over assets being financed (e.g., vehicles, equipment) — For asset-backed financing, the asset being financed is usually secured as a collateral. The total value of such collateral was AED 5,249 mn as at 31 December 2013, 50% of which is on account of retail auto loan lending.

TREASURY PRODUCTS

The Bank mitigates its credit exposure for treasury products by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Counterparty credit risk is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank mitigates its counterparty credit risk exposure from dealing in global markets products through the use of Credit Support Annexes (CSAs). CSAs require the counterparty (or the Group) to post collateral when mark-to-market positions exceed threshold and minimum transfer amounts. 75% and AED 75 mn of our Treasury exposures are covered by ISDA and/or CSA. There is a regular mark-to-market process and all valuation methodologies are approved by the Market Risk department. The Bank currently holds AED 75 mn of collateral posted with us for CSA purposes. In general the Bank does not use credit derivatives or credit default swaps as a credit risk mitigant.

As per Basel II standardised approach, the following CRMs are considered eligible for capital calculation purposes:

- Netting — applicable only with legally enforceable netting agreements in place. However, to use this mitigant, the ability to systematically calculate net exposure must be demonstrated.
- Collateral — either the simple or comprehensive approaches may be applied. ADCB uses the comprehensive approach.
- Guarantees and credit derivatives — These mitigants can be used provided they are direct, explicit, irrevocable and unconditional. The Central Bank of UAE must be satisfied that the Bank has suitable risk management tools in place to adopt the use of such mitigants.

CREDIT RISK MITIGANTS AS PER BASEL II ELIGIBILITY

AED'000

	2013		2012	
	Gross credit exposures	Risk-weighted assets	Gross credit exposures	Risk-weighted assets
Gross exposure prior to credit risk mitigation	**210,382,507**	**154,677,139**	201,943,976	145,074,002
Less: Exposure covered/RWA relief by on-balance sheet netting	**(2,827,631)**	**(1,231,679)**	(2,956,794)	(1,257,695)
Less: Exposure covered/RWA relief by eligible financial collateral	**(19,078,508)**	**(18,685,899)**	(16,575,366)	(15,702,849)
Less: Exposure covered/RWA relief by guarantees	–	–	–	–
Less: Exposure covered/RWA relief by credit derivatives	–	–	–	–
Net exposures after credit risk mitigation	**188,476,368**	**134,759,561**	182,411,816	128,113,458

ELIGIBLE CREDIT RISK MITIGANTS USED IN CAPITAL CALCULATION

AED'000

Type of credit risk mitigants	2013	2012
Cash	**1,706,294**	4,111,132
Shares	**17,372,214**	12,464,234
Netting agreements	**2,827,631**	2,956,794
Total eligible credit risk mitigants	**21,906,139**	19,532,160

17 IMPAIRMENT ANALYSIS

PORTFOLIO MONITORING AND IDENTIFYING CREDIT RISK AND IMPAIRMENT

Credit Risk Management monitors the portfolio through system-generated MIS and periodic reviews giving due consideration to industry and general economic trends, market feedback, and media reports.

MOVEMENT OF THE INDIVIDUAL AND COLLECTIVE IMPAIRMENT ALLOWANCE ON LOANS AND ADVANCES

AED'000

	2013	2012
Opening balance of allowance for impaired loan	**6,463,720**	5,711,876
Add: Charge for the year		
a. Individual impairment	**1,170,603**	1,676,510
b. Collective impairment	**383,517**	197,613
Less: Net amounts written off	**(795,407)**	(809,111)
Less: Recoveries during the year	**(187,964)**	(183,015)
Less: Discount unwind/currency translation	**(144,522)**	(130,153)
Closing balance of allowance for impaired loans	**6,889,947**	6,463,720

PORTFOLIO MONITORING AND IDENTIFYING CREDIT RISK AND IMPAIRMENT

Impaired loans by geography

AED'000

	Overdue (gross of interest in suspense and individual impairment)			Impairment		Adjustments			
	Less than 90 days	90 days and above	Total	Individual	Collective	Write-offs	Write-backs	Interest in suspense	Total impaired assets (net of IIS & SP)
2013									
Domestic (UAE)	–	**6,091,404**	**6,091,404**	**3,776,009**	**–**	**–**	**–**	**921,427**	**1,393,968**
Other GCC countries	–	**642,392**	**642,392**	**460,178**	**–**	**–**	**–**	**131,382**	**50,833**
Other Arab countries	–	**119**	**119**	**–**	**–**	**–**	**–**	**20**	**99**
Asia	–	**15,101**	**15,101**	**2,505**	**–**	**–**	**–**	**1,035**	**11,561**
Europe	–	**274**	**274**	**262**	**–**	**–**	**–**	**12**	**–**
Rest of the world	–	**34,354**	**34,354**	**11,241**	**–**	**–**	**–**	**8,260**	**14,852**
Total	–	**6,783,644**	**6,783,644**	**4,250,195**	**2,639,752**	**–**	**–**	**1,062,136**	**1,471,313**
2012									
Domestic (UAE)	–	7,128,490	7,128,490	3,988,430	–	–	–	701,902	2,438,158
Other GCC countries	–	582,017	582,017	207,204	–	–	–	95,489	279,324
Other Arab countries	–	102	102	–	–	–	–	28	74
Asia	–	240	240	–	–	–	–	104	136
Europe	–	30,684	30,684	11,503	–	–	–	5,090	14,091
Rest of the world	–	40	40	–	–	–	–	14	25
Total	–	7,741,573	7,741,573	4,207,137	2,256,583	–	–	802,628	2,731,808

Impaired loans by economic activities

AED'000

	Overdue (gross of interest in suspense and individual impairment)			Impairment		Adjustments			Total impaired assets
	Less than 90 days	90 days and above	Total	Individual	Collective	Write-offs	Write-backs	Interest in suspense	(net of IIS & SP)
2013									
Agriculture		**219,021**	**219,021**	**29,836**	**–**	**–**	**–**	**13,397**	**175,788**
Energy		**21**	**21**	**–**	**–**	**–**	**–**	**6**	**15**
Trading		**69,853**	**69,853**	**16,234**	**–**	**–**	**–**	**20,507**	**33,112**
Real estate & hospitality		**2,708,070**	**2,708,070**	**738,225**	**–**	**–**	**–**	**370,797**	**1,599,048**
Transport		**255,627**	**255,627**	**76,951**	**–**	**–**	**–**	**35,348**	**143,329**
Personal		**2,770,511**	**2,770,511**	**1,484,626**	**–**	**–**	**–**	**435,723**	**850,162**
Government & public sector entities		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Financial institutions		**428,635**	**428,635**	**52,444**	**–**	**–**	**–**	**59,554**	**316,637**
Manufacturing		**28,505**	**28,505**	**2,693**	**–**	**–**	**–**	**1,856**	**23,956**
Services		**21,195**	**21,195**	**34**	**–**	**–**	**–**	**12,170**	**8,992**
Others		**282,206**	**282,206**	**1,849,154**	**–**	**–**	**–**	**112,778**	**(1,679,726)**
Total	**–**	**6,783,644**	**6,783,644**	**4,250,195**	**2,639,752**	**–**	**–**	**1,062,136**	**1,471,313**
2012									
Agriculture	–	192,410	192,410	14,000	–	–	–	6,602	171,808
Energy	–	17	17	–	–	–	–	5	13
Trading	–	66,035	66,035	15,228	–	–	–	16,982	33,825
Real estate & hospitality	–	2,337,142	2,337,142	757,272	–	–	–	279,678	1,300,193
Transport	–	240,527	240,527	65,976	–	–	–	20,442	154,109
Personal	–	4,153,977	4,153,977	1,696,560	–	–	–	405,934	2,051,483
Government & public sector entities	–	–	–	–	–	–	–	–	–
Financial institutions	–	378,401	378,401	13,249	–	–	–	19,778	345,373
Manufacturing	–	2,565	2,565	1,121	–	–	–	627	817
Services	–	103,675	103,675	4,391	–	–	–	7,625	91,659
Others	–	266,825	266,825	1,639,341	–	–	–	44,955	(1,417,471)
Total	–	7,741,573	7,741,573	4,207,137	2,256,583	–	–	802,628	2,731,808

The Central Bank of UAE vide notice no. 3823/2012 dated 14/11/2012 has instructed all banks to report on new banking return forms which are more extensive and granular than the existing reports. As a result, among other things, economic sector definitions and classifications were further refined and expanded from 40 to 91 sectors. During 2013, the Bank, based on the new circular, revisited the economic sector classification for its credit risk exposure. Accordingly, the economic sector of the credit risk exposure was reclassified for prior year Pillar III disclosures to conform to the current year's presentation.

18 MARKET RISK

CAPITAL CALCULATION

Capital is allocated in respect of market risk under the general guidelines and framework set out under Basel II Section VI, Market Risk, which defines this risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices.

The market risks subject to a capital charge are as follows:

- interest-rate risk;
- foreign-exchange risk;
- equity-exposure risk;
- commodity risk, and
- options risk.

CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDISED APPROACH

AED'000

	2013	2012
Interest-rate risk	**342,640**	272,078
Equity-position risk	**179,512**	83,969
Foreign-exchange risk	**28,232**	28,984
Commodity risk	**15,994**	281
Options risk	**20,431**	64,633
Total capital requirement	**586,809**	449,945

AED'000

	2013		2012	
	Risk-weighted assets	**Capital requirements**	Risk-weighted assets	Capital requirements
Interest-rate risk — trading book				
Specific risk	**59,017**	**7,082**	40,399	4,848
General risk — maturity-based	**2,796,314**	**335,558**	2,226,915	267,230
General risk — duration-based	**–**	**–**	–	–
Foreign-exchange risk	**235,266**	**28,232**	241,532	28,984
Equity exposure risk-trading book	**–**	**–**		
General risk	**747,965**	**89,756**	349,871	41,985
Specific risk	**747,965**	**89,756**	349,871	41,985
Commodity risk-trading book	**133,286**	**15,994**	2,344	281
Options risk	**–**	**–**	–	–
Simplified approach	**–**	**–**	–	–
Intermediate approach	**170,259**	**20,431**	538,612	64,633
Total market-risk capital charge	**4,890,072**	**586,809**	3,749,544	449,945

19 EQUITY POSITION IN BANKING BOOKS

QUANTITATIVE DETAILS OF EQUITY POSITION

AED'000

	2013		2012	
	Publicly traded/quoted	Privately held/unquoted	Publicly traded/quoted	Privately held/unquoted
Equities	1,028	243,716	425	205,621
Collective investment schemes	–	–	–	–
Any other investments	–	–	–	–
Total equity position	**1,028**	**243,716**	425	205,621

For details of the accounting policies and valuation methodology, please refer to Note 3.13 to the audited consolidated financial statements under "Summary of Significant Accounting Policies." Details of fair value are reported in Note 9 to the audited consolidated financial statements under "Investment Securities."

AED'000

	2013	2012
Realised, unrealised and latent revaluation gains (losses) during the year		
Realised gains (losses) from sales and liquidations	(1,911)	(7,607)
Unrealised gains (losses) recognised in the balance sheet but not through profit and loss	11,764	5,512
Latent revaluation gains (losses) for investment recorded at cost but not recognised in balance sheet or profit or loss account	–	–
Total	**9,853**	(2,095)

AED'000

	2013	2012
Items in table above included in Tier 1/Tier 2 capital		
Amount included in Tier 1 capital	(1,911)	(7,607)
Amount included in Tier 2 capital	5,294	2,480
Total	**3,383**	(5,127)
Capital requirements by equity groupings		
Strategic investments	–	–
Available-for-sale	44,054	37,088
Held-for-trading	–	–
Total capital requirement	**44,054**	37,088

20 OPERATIONAL RISK

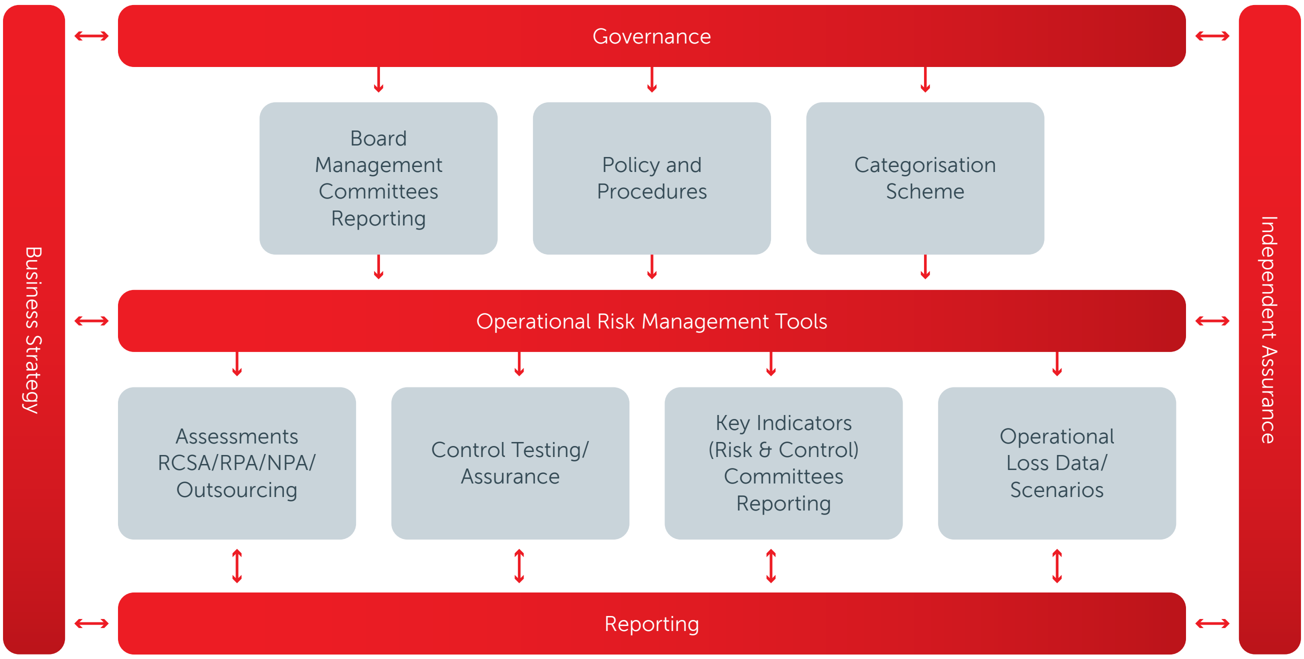
The Bank defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." Operational risks can expose the Bank to potentially large losses as well. While the Bank cannot eliminate all operational risks, it has developed a comprehensive process of identifying, assessing, controlling, mitigating, monitoring and reporting operational risk.

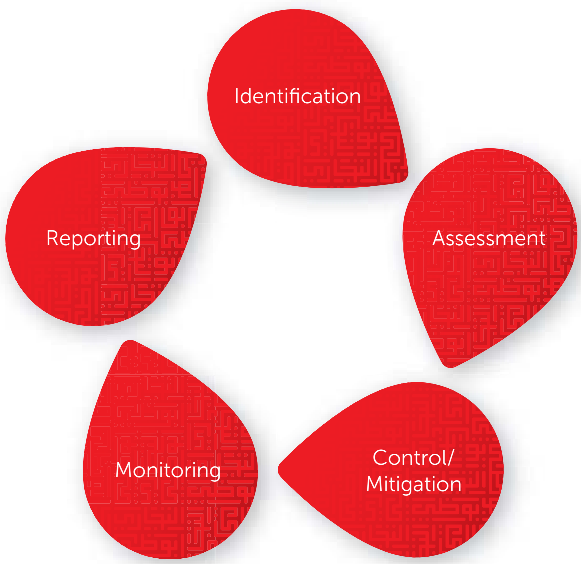
The ultimate responsibility for Bank-wide operational risk profile, as well as compliance with laws and regulations, rests with the Board of Directors (BoD), even though this responsibility has been delegated to the senior management. Ongoing management of operational risk is coordinated by the Operational Risk Management Department (ORMD) and reviewed and controlled by the Management Risk & Credit Committee (MRCC) and Management Executive Committee (MEC) as applicable for policy purposes.

The operational risk governance framework as shown below is built on a number of elements which allow the Bank to effectively manage and measure its operational risk profile and to calculate the amount of operational risk capital that the Bank needs to hold to absorb potential losses.

The Internal Audit function provides further independent review of the Bank's operational risk management processes, systems and controls and reports independently to the Board.

For operational risk measurement, ADCB follows the standardised approach (TSA) under Basel II. The capital charge for the year ended 31 December 2013 was AED 866,010 thousand (2012: AED 783,193 thousand).





Like other risk management disciplines, operational risk management also follows the three lines of defence philosophy:

- first line of defence (Business Unit) — owns and manages its risks and controls;
- second line of defence (Operational Risk Management) — provides policy, tools and infrastructure to assist business units in managing their risks; and
- third line of defence (Group Internal Audit) — provides independent assurance on the effectiveness of the risk management process.

RISK IDENTIFICATION, MONITORING AND REPORTING

The risk identification and assessment process involves risk assessment of new initiatives including new products, new systems and new and material process changes including outsourcing arrangements. Risk assessment methodology employs more granular and objective assessment of operational risk exposures for material risks identified through the risk identification processes, which enables us to prioritise risks and related actions.

A robust system of controls that is commensurate with the level of operational risks being managed is in place. Since the risk environment is not static, processes are in place for ongoing review of key mitigating controls. This dynamic process helps us to identify gaps early and facilitate timely remedial action for potential risk exposures.

The escalation of issues and events (and therefore greater risk transparency across the organisation) is a critical component of ADCB's operational risk management process. The escalation process was enhanced to ensure that relevant information is received by the decision makers in a timely manner so that appropriate actions are taken. Monitoring and reporting processes are in place for periodic monitoring of key operational risk data and matrices. The reports are submitted to BRCC, MEC and also Group Heads for information and resolution.

FRAUD RISK

Proactive fraud risk management is a key success factor in combating the increasing number of frauds perpetrated against financial institutions around the globe. ADCB continued to strengthen its anti-fraud activities during the year through an enhanced anti-fraud strategy and a centralised function, which led to the initiation of fraud projects and initiatives aimed at fraud prevention and detection capabilities. The projects are at various levels of maturity.

BUSINESS CONTINUITY MANAGEMENT

The safety of employees and the ability to recover from a crisis in a timely fashion are of utmost importance to ADCB. To appropriately handle crisis situations, emergency response procedures and business continuity plans (BCP) were significantly enhanced.

ADCB's business continuity framework has been designed to ensure that the Bank can continue to achieve its business objectives in the face of an unexpected disruptive event. The plans identify the teams, and list critical processes and systems, evacuation procedures and the respective recovery sites where the teams will report to in the event of a disaster. Emergency response procedures contain evacuation guidelines, response measures and roles and responsibilities in dealing with various threats.

The plans are tested periodically and involve mobilising staff from primary to recovery site and enabling them to carry out critical activities.