# A Better Way

AMBITION + DISCIPLINE

Abu Dhabi Commercial Bank PJSC
2014 Annual Report

بنك أبوظبي التجاري
ADCB

His Highness
Sheikh Khalifa bin Zayed Al Nahyan

President of the United Arab Emirates and Ruler of Abu Dhabi
Supreme Commander of the UAE Armed Forces

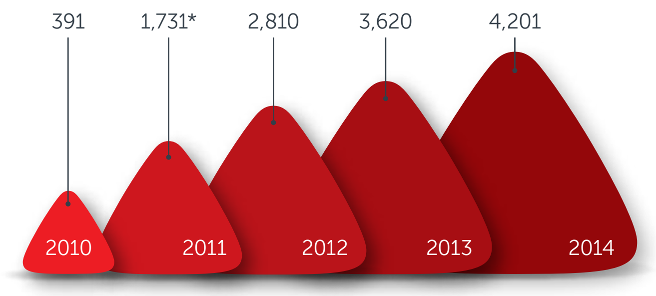
His Highness
General Sheikh Mohammed bin Zayed Al Nahyan

Crown Prince of Abu Dhabi
Deputy Supreme Commander of the UAE Armed Forces
Chairman of the Abu Dhabi Executive Council

# Financial Highlights

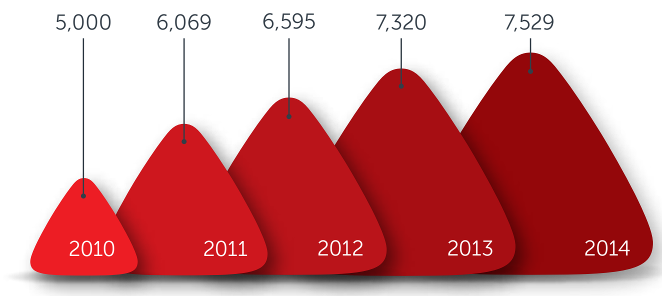
Net Profit (AED MN)

16% increase in the past year



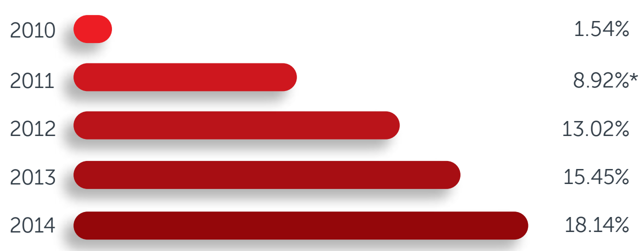

Total Operating Income (AED MN)

3% increase in the past year



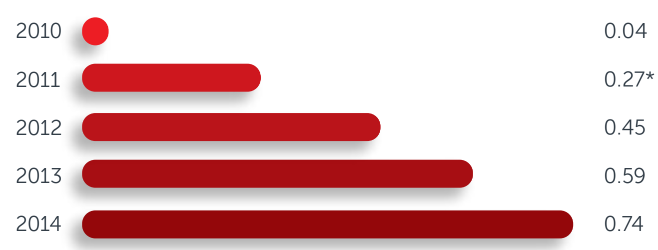

Return on Equity

18.14% in 2014



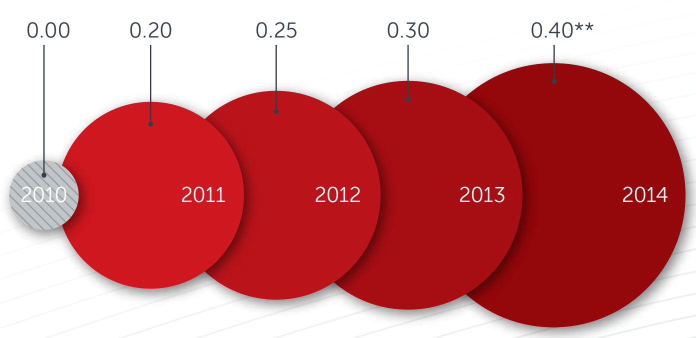

Basic Earnings per Share (AED)

25% increase in the past year



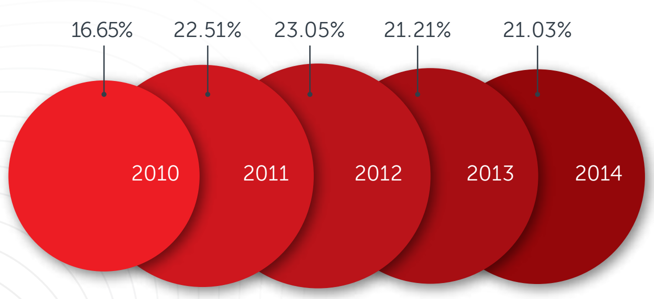

Dividends per Share (AED)

33% increase in the past year




Capital Adequacy Ratio

21.03% in 2014




*Normalised to reflect sale of investment in associate.

**Subject to approval by the shareholders at the Annual General Meeting and by the UAE Central Bank.

There's a right way to go about it. Since we launched our strategy five years ago, in the depths of the global economic crisis, ADCB has been showing our business community and the larger communities around us what we believe to be a better way to run a bank, built on strategic pillars designed to both earn success in the near term and withstand the test of time. We strive to offer all people living and working in the UAE a better way to bank. We see ourselves as a singular force for sustainable growth in this market. Whatever may come, we will be here for our customers, our owners, our people and the UAE — delivering value and service that always goes above and beyond.

Ambition plus discipline. This is the path we have chosen. This is the ADCB way.

# Chairman's Message

On behalf of ADCB's Board of Directors, I am pleased to report that 2014 was another record year for the Bank. ADCB achieved net profits of AED 4.2 bn, which were up 16% over 2013. At 18.1%, ADCB's return on equity was one of the highest amongst its peers.

These results reflect sustained solid performances across all operations. ADCB remains a leading bank in the UAE and the region, differentiated by its focused approach, strategic and operational discipline, and financial strength.

Trading conditions continued to improve despite volatility in global markets and continued uncertainties in regional and global politics. The local and regional outlook is positive, but global political developments remain unpredictable, and the Bank will retain a cautious approach to growth and aim to maintain its strong financial position and capital base.

As a result of ADCB's record performance in 2014, the Board has recommended a cash dividend of 40 fils per share, translating to a payout of AED 2.1 bn (excluding Treasury shares) equivalent to 50% of net profit, subject to approval by the shareholders at the Annual General Meeting and by the UAE Central Bank. Further details of this dividend and ADCB's operational performance in 2014 are set out in appropriate sections of this report.

The Board met in October 2014 to review the Bank's strategy. At that meeting, the Board and management agreed on the prioritisation of the Bank's objectives; reaffirmed the pillars comprising the Bank's strategy; and approved certain tactical initiatives aimed at delivering the strategy.

Our strategy has delivered good performance over recent years, and the Board and management remain committed to implementing this strategy, adjusted as may be required by prevailing conditions, over the medium to long term. In particular, the Board and management believe that a continued commitment to customer service; quality, sustainable profits; attraction and motivation of high-quality staff; as well as a cautious approach to risk; will deliver improved returns to shareholders. ADCB will maintain a disciplined, efficient and prudent profile, and will remain focused on delivering sustainable returns to investors.

ADCB again published a sustainability report during 2014. An executive summary of our 2014 sustainability initiatives and updates is set out in the Sustainability section of this report.

ADCB remains committed to attracting, training and retaining high-calibre UAE national talent

ADCB's Priorities

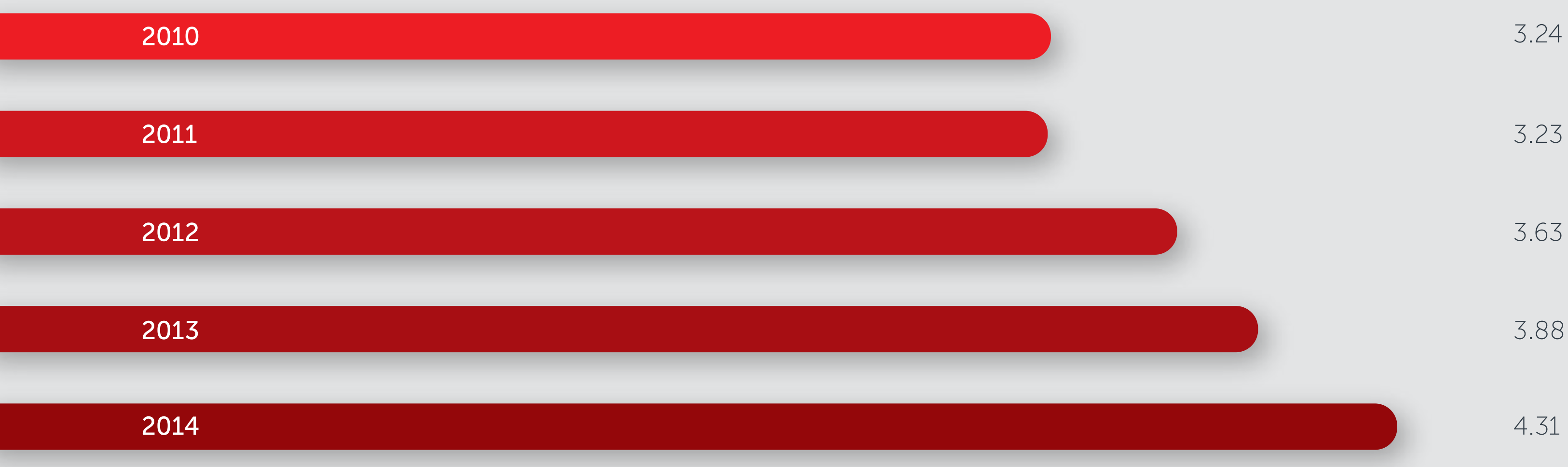
1. Create the most valuable bank in the UAE in terms of total shareholder return.

2. Build sustainable and quality profits through repeatable core business and operating model.

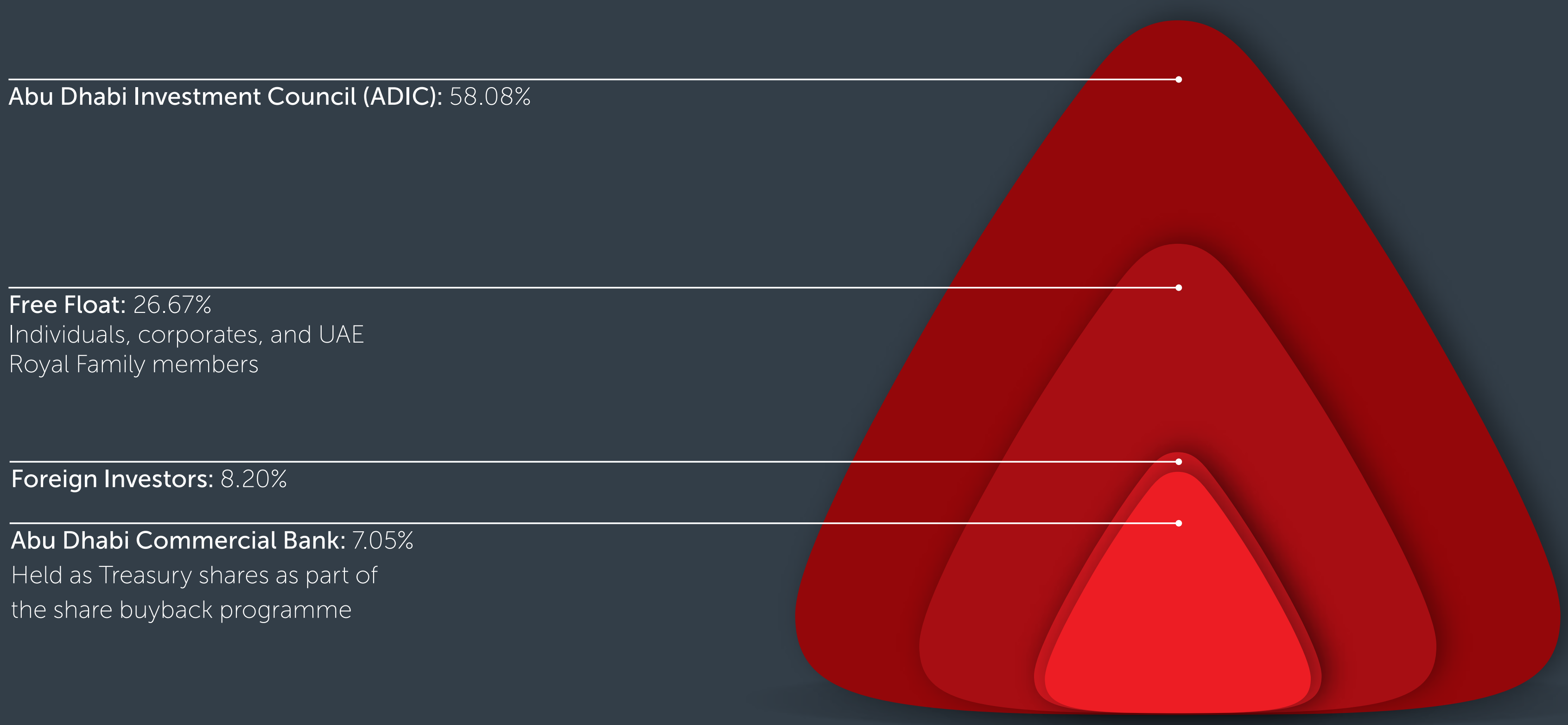
3. Retain our conservative risk stance.

## Book Value per Share

(AED)




## Shareholding Structure



## Dividend Payout Ratio*

# 50%

of Net Profit

across all levels of the Bank. As at the end of 2014, 40.5% of the Bank's staff were UAE nationals. The Board is particularly proud of the Bank's Tamooha initiative. This initiative, described more fully on page 32 of this report, is the first of its kind in the UAE and to date has provided work for 120 Emirati women in the Al Ain region.

Meanwhile, the Bank remains committed to the Abu Dhabi Economic Vision 2030 and the long-term economic development of Abu Dhabi and the UAE.

In 2014, ADCB won the Hawkamah Bank Corporate Governance Award for the second time in three years. This prestigious regional award highlights a commitment to governance across all levels of the Bank, from the Board and executive management to our entire staff. In 2014:

- The Board remained engaged, having met (either in full Board or Committee meetings) 64 times. The Board visited several branches and operations functions, and held off-site strategy sessions. In addition, the Board continued its efforts to improve its effectiveness.
- The Board took further steps to improve risk governance. In particular, the Board Risk & Credit Committee continues to shift its attention away from operational matters (such as credit decisions) and towards risk strategy and risk appetite discussions.
- The Board's Corporate Governance Committee continued to work on embedding a governance culture across the Bank, particularly in the areas of ethics and compliance, strategy governance, IT governance and procurement governance.

In common with all large institutions, the task of embedding a strong governance culture across all levels is ongoing and will continue. More details of these efforts are provided in the Corporate Governance section of this report.

On behalf of the Board, I extend our most sincere appreciation and gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the UAE President and Ruler of Abu Dhabi; to His Highness Sheikh Mohammed bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces; to His Highness Sheikh Mansour bin Zayed Al Nahyan, Deputy Prime Minister and Minister of Presidential Affairs; and to the UAE Central Bank for continued support for ADCB and the future development of the UAE economy. I also extend the continued gratitude and appreciation of the Board to our shareholders, valued customers, and the ADCB executive management team and employees for their continued dedication and commitment.

**Eissa Mohamed Al Suwaidi**
*Chairman*

*Excluding Treasury shares.

# Group CEO's Message

Once again, it gives me great pleasure to report a year of strong performance by your Bank. Simply put, 2014 was a great year for ADCB, a year of record net profit and revenues that built upon a record-setting year before it.

But the story of ADCB is not about one single year, or two strong years in succession, or five years of growth. It is a story about the path we are on and where that path leads.

We seek to become the most valuable bank in the UAE. The only way to accomplish this is through sustainable growth, which is at the root of our strategy.

And our strategy is serving you well.

## Leading Indicators

ADCB's record results in 2014 included crossing the AED 200 bn mark in total assets and the AED 4 bn mark in net profit for the first time. Our operating income of AED 7.5 bn, up 3%, and our net profit of AED 4.2 bn, up 16% from 2013, built on last year's record numbers. Excluding the one-off gain from retirement of hedges in 2013 and income attributable to non-controlling interests (primarily funds consolidation), net profit attributable to equity shareholders grew by 24%.

We continue to deliver strong results. We are strongly capitalised, with a capital adequacy ratio at an industry-leading level of 21.03%. Even with a significantly high level of capital, our businesses have delivered a strong return on equity of 18.1%, one of the highest amongst

7,529

Total Operating Income (AED MN)

204,019

Total Assets (AED MN)

our peers. Low-cost current account and savings account (CASA) deposits improved significantly, contributing to 45% of total customer deposits compared to 39% in 2013. Our asset quality continues to improve, and our cost of risk was reported at record low levels.

## The Right Kind of Growth

Our strategy, resilient by design, sets us apart and keeps us firmly on the path of sustainable growth.

We seek growth with a passion, but only the right kind of growth: the kind that generates sustainable profits. You can see this reflected in our growing, low-cost CASA deposits and operational accounts for both individuals and corporates; our focus on improving customer service for all our customers; our award-winning businesses in cash management and trade finance; and our leading presence in serving small and medium-size enterprises (SMEs). We are attracted to and have fully embraced the granularity of SME and mid-corporate businesses, recognising that big-ticket loans are relatively easy for others to target and therefore subject to ever-diminishing returns. Meanwhile, we are creating mutually beneficial, long-term relationships with a host of business owners who, cumulatively, are an engine of commerce in the growing economy of the UAE.

To strengthen our market-leading and award-winning SME franchise in the UAE, we acquired the SME loan portfolio of Mubadala GE Capital during the early part of the year. This affirms ADCB's clear strategy to focus on the UAE and to serve this vital sector of the UAE economy.

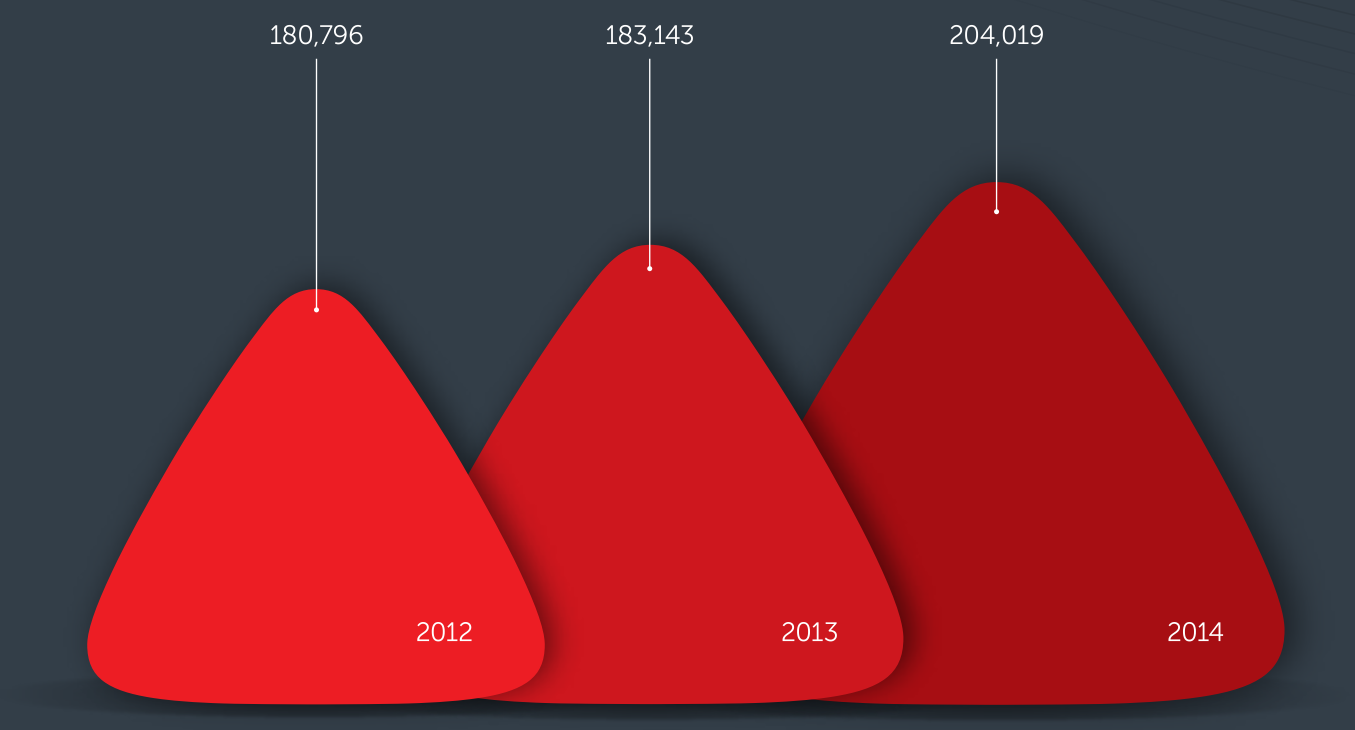
In our retail business, we have accomplished a remarkable transformation over the years and have become a leader and trendsetter in our markets, including leading in online banking and mobile applications; biometric voice recognition; deep and growing engagement with affluent customers; and a strong and growing Islamic Banking business. To expand our retail presence, in 2014 we launched "SimplyLife," a basic banking value proposition focused on serving and tapping the potential of the mass-market segment of the UAE.

Our Islamic Banking business remains a prime driver of growth, with Islamic financing assets (gross) up 5% and total Islamic deposits up 15% over 2013.

As you will see in the pages of this report, this intensified focus on sustainable growth has energised all our businesses and helped us to replace a large amount of occasional income with repeatable, recurring income. This is income we can protect and grow.

# Total Assets

(AED MN)




## Committed to the UAE

You will also see that our commitment to the UAE, its economy and its people, runs deep. Our strategy aligns with and supports UAE Vision 2021 and Abu Dhabi Economic Vision 2030, the Government's pathway from an oil-based economy to a diversified, knowledge-based economy — plans that emphasise developing local talent, supporting local businesses and, above all, sustainable growth. We were humbled to have been selected to represent the banking sector, as an exemplar of efficiency, at the UAE's 2014 Government Summit. We are also an active participant in and advocate for "Absher," the Emiratisation initiative launched by His Highness Sheikh Khalifa bin Zayed Al Nahyan to enhance the labour-market participation of UAE citizens.

This commitment inspired our creation of "Tamooha," a women-only work group designed for Emirati women whose talents and ambitions might otherwise go unexplored. This is the first programme of its kind in our sector or, for that matter, in any sector in the UAE.

We are proud to be the first bank to provide a unique career structure — using flexible hours, home-based options, and a highly digitised, women-only workplace — that enables Emirati women to pursue careers whilst meeting their everyday life responsibilities without compromising their beliefs.

The work is primarily data entry and validation, but also includes a call centre. We have launched a Tamooha Centre in Al Ain, and additional centres are being developed in the Western Region and the Northern Emirates.

I have been very moved by the impact we are having on the lives of these gifted and very productive women. We have given them a place to shine. Our Tamooha women are happy to have a workplace of their own and energised by this opportunity to contribute to their families and to the economy of this ambitious and growing country. And they are committed to the success of ADCB.

## Headwinds

2014 did bring challenges and headwinds, some of which persist. The sharp drop in oil prices in the latter part of the year is being felt in the broader economy. The weaker oil price is reflected in weaker headline growth and fiscal and current account positions in the UAE, yet current account is forecast to remain in surplus for 2015.

The underlying economy of the UAE remains strong. The non-oil sector continues to grow at above 5%. The UAE has a strong ability to progress with its investment programme, which will further support private consumption and non-oil exports as population and capacity continue to grow.

Abu Dhabi's strong fundamentals — low debt, strong foreign exchange reserves, ample liquidity both domestically and internationally — support countercyclical spending. The robust non-oil activity, involving tourism, trade, logistics and the like, further supports wider investments.

## Our Journey Continues

At ADCB, we are on a path of moving from good to great. Ambition and discipline will take us there, propelled by the power of our strategy and the passion of our people.

Ours is a story of great continuity and progress. Our management team has remained essentially the same since we launched our strategy five years ago. Our Board has been with us all along the way. Our values are uncompromised, and the value we deliver continues to rise.

We continue to follow a corporate strategy based on measured growth and discipline to deliver sustained profitability and strong operating performance. We have made significant improvement in our cost of funds. Our asset quality shows continued improvement. We are sustaining strong liquidity, and our capital position is at industry-leading levels. As a customer-centric enterprise, we continue to invest in world-class customer service infrastructure and, with the Bank-wide adoption of Net Promoter Score (NPS[1]) in 2014, we are measuring our progress in customer satisfaction every step of the way.

But we are not satisfied. Our ambition is always to do better. We know that, in everything we do, there will always be room for improvement. And so we press on.

On this journey of ours, we are on the right path and moving in the right direction. We see great things ahead. All of us at ADCB are grateful and honoured to have the continuing support of our shareholders and customers as we move forward, and we invite you to follow our progress along the way.

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



1. NPS is well-recognised as the ultimate measure of customer advocacy. "Net Promoter Score" and "NPS" are trademarks of Satmetrix Systems Inc., Bain & Company, and Fred Reicheld.

# Group CFO's Message

2014 stands as a year of strong financial results that built on strong years before it, as we continued to execute a strategy put in place five years ago. We see ADCB's performance as a function of discipline, reflecting our focus on fundamental banking principles and the emphasis we place on sustainable growth.

The Bank reported a record net profit and operating income, and delivered strong basic earnings per share of AED 0.74 compared to AED 0.59 in 2013, an increase of 25.4% year on year. Return on equity grew from 15.5% in 2013 to 18.1% in 2014. Our return on average assets for 2014 was 2.00% compared to 1.72% in 2013.

In an extremely competitive environment, net loans grew 7% in 2014 and customer deposits increased 9% year on year. Our net interest margin levels were relatively stable, with a slight decline of 18 basis points year on year. Our cost base is efficiently managed, and asset quality shows continued improvement, with the provision coverage ratio increased to 137.1% for the year and past due and impaired loans decreased by 19% over 2013, whilst cost of risk was reported at record low levels. Our cost to income ratio came in at 34%, within our target range.

In an environment of margin compression and intense competition, we have performed quite well. We credit the strength and consistency of our strategy, the stability and dedication of our management team, and the disciplined execution by our people.

## Meeting Challenges

The margin compression we have seen has intensified the need for stringent discipline in executing our strategies. We are also pursuing, and winning, other sources of business, intensifying our focus on non-interest income and granular growth. This increased emphasis on non-interest income is reflected in our net fees and commission income, which grew 25% year on year to AED 1,243 mn in 2014.

Challenges remain. Competition is fierce, and the cost of compliance has gone up. The regulatory environment has intensified and will likely only grow more stringent.

Net Loan and Customer Deposit Growth (AED BN)


Our differentiation comes down to disciplined execution and customer-centricity. In this overbanked market, the only way to win consistently with customers is to outperform on service. We continue to invest in world-class service infrastructure. We make it easier to bank, and easier for our customers to handle the challenges of life and business that benefit from having a good banker behind you.

## Stable, Strong and Growing

The Bank's capital ratios are at industry-leading levels, and we maintain a strong liquidity ratio of 25.2%. We offer investors a straightforward business model, with a clear geographic focus in the UAE; a clear strategy, focused on sustainable growth; and a clear differentiator in the disciplined way we operate, govern and grow our business.

Our footprint is well-defined: primarily Abu Dhabi and Dubai, whilst also serving the entire UAE. Yet our offerings are as diversified and technology-enabled as any international bank.

Our strategic focus remains on sustainable profitability as we grow. And we are growing. As can be seen in the accompanying charts and throughout this report, our results include many individual indicators that show strong progress.

## Resiliency

We believe a bank ought to be resilient as well as high-performing for its shareholders. We manage our balance sheet conservatively. Our loans and advances are diversified across all economic sectors to minimise risk. We control costs efficiently and always look for ways to build capital for our businesses, improve shareholder returns, and offer the best products and services to our customers.

We run a stable and resilient business — a strong, liquid and focused Bank — with a clear vision and the ambition and discipline to make it a reality.

We are not the only ones to think so. Standard & Poor's revised its outlook on ADCB from "Stable" to "Positive" in July 2014. ADCB is also the acknowledged leader in corporate governance and risk management in the banking sector.

## Moving Ahead

As we have said before, our strategy is working. Going forward, we see more of the same. Our strategy will not change. Our discipline will not waver. Our focus on the customer will remain absolute. The recognition that truly matters to our bottom line comes from our customers.

Year by year, ADCB finds better ways of delivering the right products and services to our customers and attractive returns to our shareholders, and our business continues to grow. We are confident in our chosen path as we move ahead.

**Deepak Khullar**
*Group Chief Financial Officer*

## Our Ratings

A/A-1/ Positive

S&P

A+/F1/ Stable

Fitch

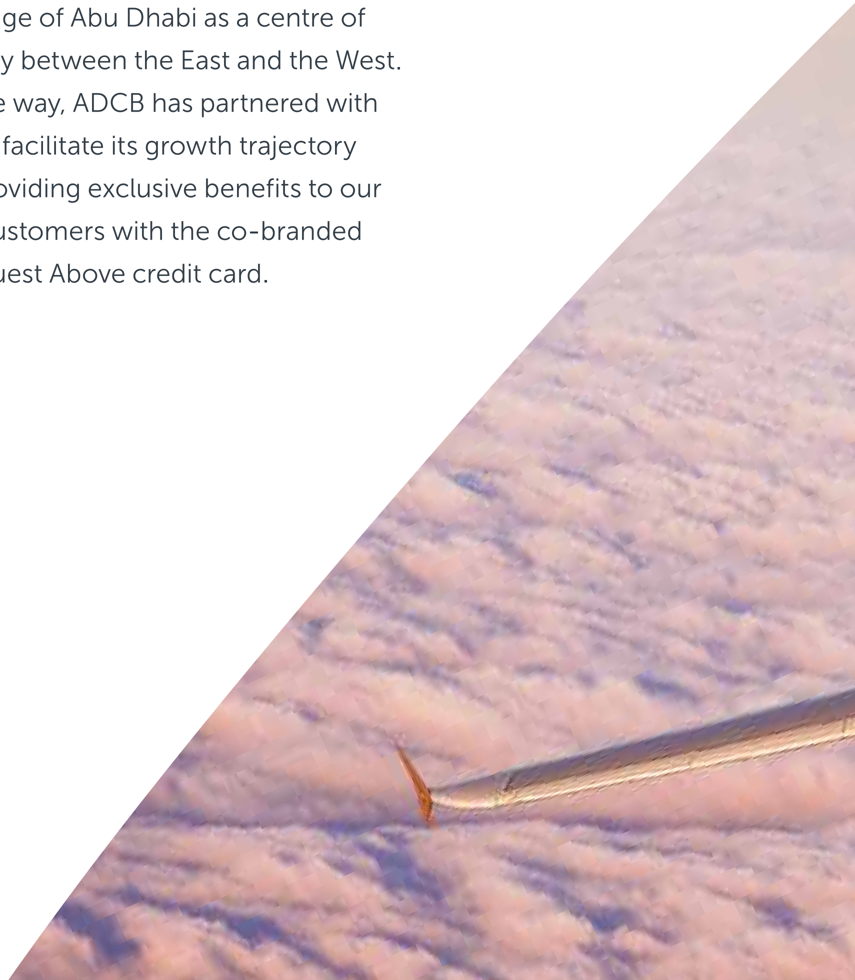
AAA/P1/ Stable

RAM

# A Better Way to Soar

**Helping Etihad reach new heights with its first A380 —** Etihad Airways, the UAE's national airline, took delivery of its first Airbus A380, thanks in no small part to ADCB's speed of execution in financing the transaction. The double-decker superjumbo aircraft has been outfitted with every luxury. Etihad's first A380 service began flying from Abu Dhabi to London in December 2014.

Etihad is one of the fastest-growing airlines in the history of commercial aviation. Named "World's Leading Airline" at the World Travel Awards for five consecutive years, it has also become one of the world's premium airline brands, enhancing the prestige of Abu Dhabi as a centre of hospitality between the East and the West. Along the way, ADCB has partnered with Etihad to facilitate its growth trajectory whilst providing exclusive benefits to our shared customers with the co-branded Etihad Guest Above credit card.

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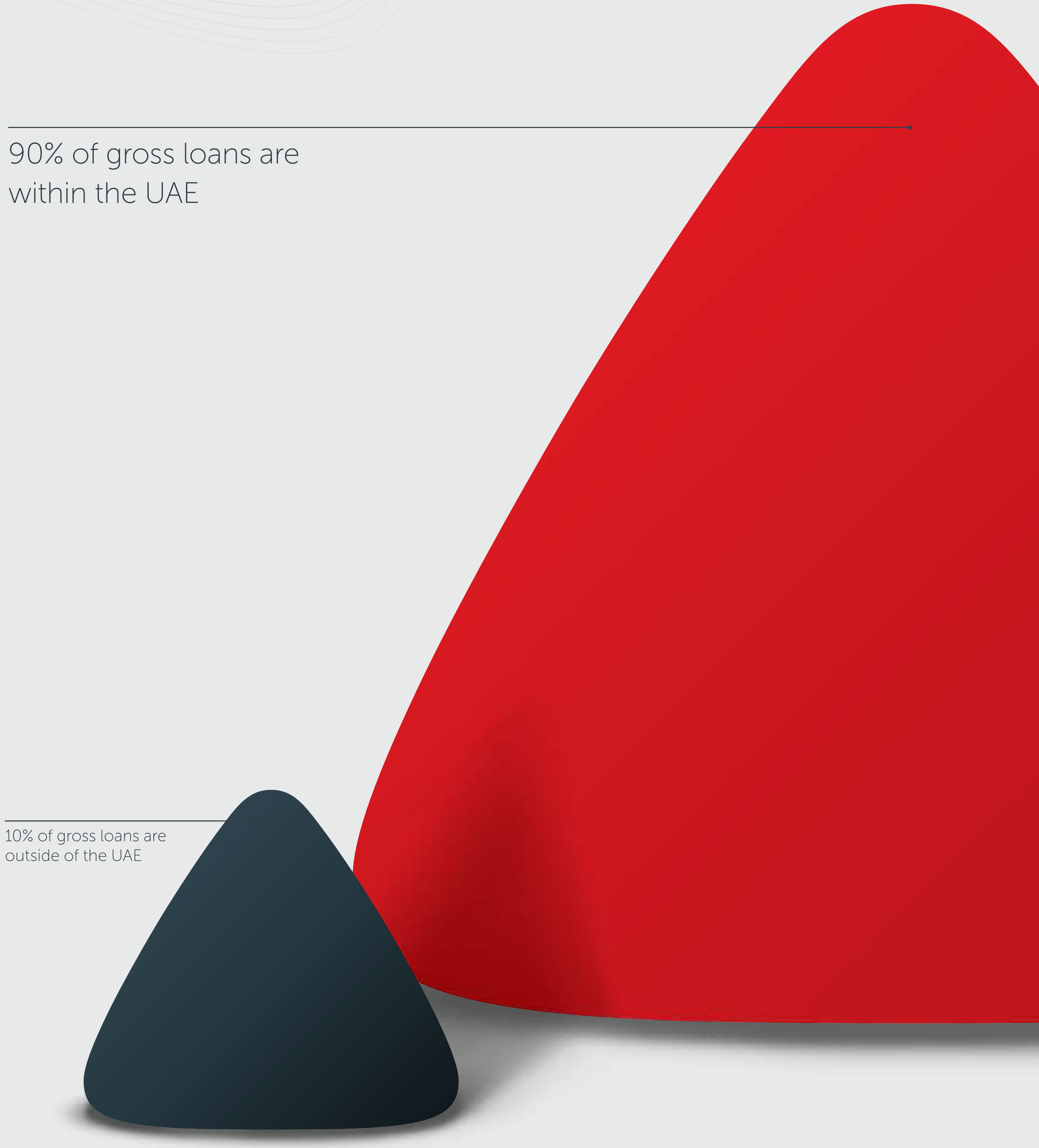

90% of gross loans are within the UAE
10% of gross loans are outside of the UAE

STRATEGY

# 01

## Growth through a UAE-centric approach, with controlled internationalisation

We have made a conscious decision to pursue and stimulate growth from our position of strength within the UAE — a dynamic, growing market of great ambition and vast business potential. Being customer-centric, we follow key customers into proximity markets they favour (e.g. India where ADCB has a branch presence), allowing us to capitalise on global economic trade and investment flows. In this spirit, we have recently opened a representative office in London and have regulatory approval in place to do so in Singapore. That being said, we are a UAE bank, here to serve the people and businesses of the UAE with world-class products and exceptional customer service.

# A Better Way to Grow

**Fuelling balance sheet strength through low-cost current account and savings account (CASA) deposits —** Our award-winning and world-class cash management services help clients to make their businesses more efficient and automated, reducing administration and risk. These services also deliver CASA balances for ADCB — a strategic advantage over fixed deposits, as CASA provides stable low-yield/low-cost customer deposits that help to drive down our overall cost of funds. Driven in large part by growth in low-cost CASA deposits, in 2014 ADCB reported significantly lower cost of funds year over year.

CASA deposits improved to 45% of total customer deposits at year-end compared to 39% at the end of 2013. This is a reflection of a large number of cash management mandates from clients who have chosen to bank with ADCB based on our offerings and service standards.

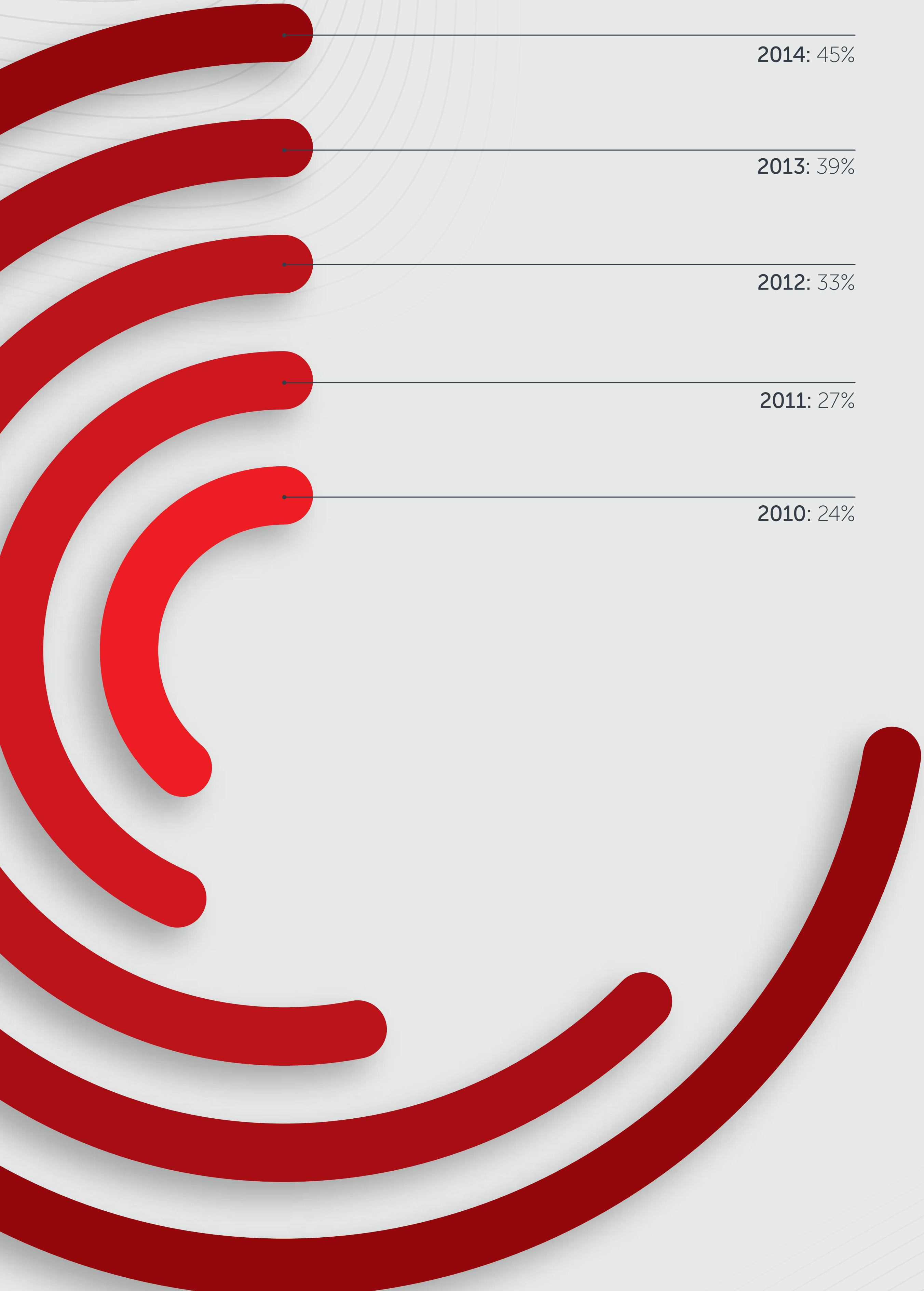
STRATEGY

# 02

## Sustainability through liability growth

As one of our key strategic levers, we have sought to develop a sustainable cost of funds advantage, seizing opportunities to bolster our balance sheet. In the current low-interest-rate environment, in this time of renewed market confidence, we have increased CASA deposits to further lower our cost of funds as a sustainable way to fuel balance sheet growth and improve returns.

## Current Account and Savings Account (CASA) Deposits as a Percentage of Total Customer Deposits



# A Better Way to Serve

**Embedding customer-centricity into our DNA —** Embracing the discipline of customer satisfaction, we have adopted Net Promoter Score, or NPS*, as our way of measuring and managing the customer experience. NPS is well-recognised as the ultimate measure of customer advocacy, and provides a good indication of future market growth by recognising the positive impact of ADCB advocates.

We employ NPS as a single currency throughout the Bank. Every member of staff from top to bottom has a measure of at least 30% of their annual performance bonus tied to delivering a superior customer experience. With NPS as our metric, we have implemented real-time, fast feedback loops to ensure we are always delivering customer-centric service excellence.

*"Net Promoter Score" and "NPS" are trademarks of Satmetrix Systems Inc., Bain & Company, and Fred Reicheld.


بنك أبوظبي التجاري
ADCB

# 2014

## Towards Service Excellence

1,500

Mystery shopping surveys

18

Service quality forums and customer experience working groups

3,600

Service recoveries following feedback from a fast feedback loop

21

Live fast feedback loops

4,559

Staff trained in service

8

Processes fully re-engineered

92

Studies undertaken on the voice of the customer

11,000+

Staff provided feedback on internal service providers

16

Customer focus groups undertaken

1,000+

Tele-audits undertaken to monitor our service standards

40,000

Customers spoken to for feedback

STRATEGY

# 03

## Maintain a culture of service excellence and efficiency

We strive to deliver an unrivalled experience for all our customers in serving any of their banking needs and, with great discipline, focus on controlling costs to ensure that growth in our revenues outpaces expenses. We continue to invest in improving the overall customer experience, elevating quality and simplifying solutions to support our customers at key moments on their individual journeys.

# A Better Way to Manage Risk

**Embracing a comprehensive view of risk —** We are risk-aware, not risk-averse, and our growth strategies strike a balance between being ambitious and disciplined. We manage and mitigate risk through an effective control framework, disciplined risk practices and a strong risk-management culture that guides each and every employee. Our risk teams collaborate with the front line to ensure that risk is balanced against profitable growth and to ensure we find the right solutions for both our customers and our shareholders. Together, we find a better way to manage risk.

As we move ahead, we are looking to create greater awareness at the Board and management levels of all manner of risk as opposed to purely credit risk. To enable such a macro-level review of risk, we have adopted a principal risk ownership framework across ADCB.

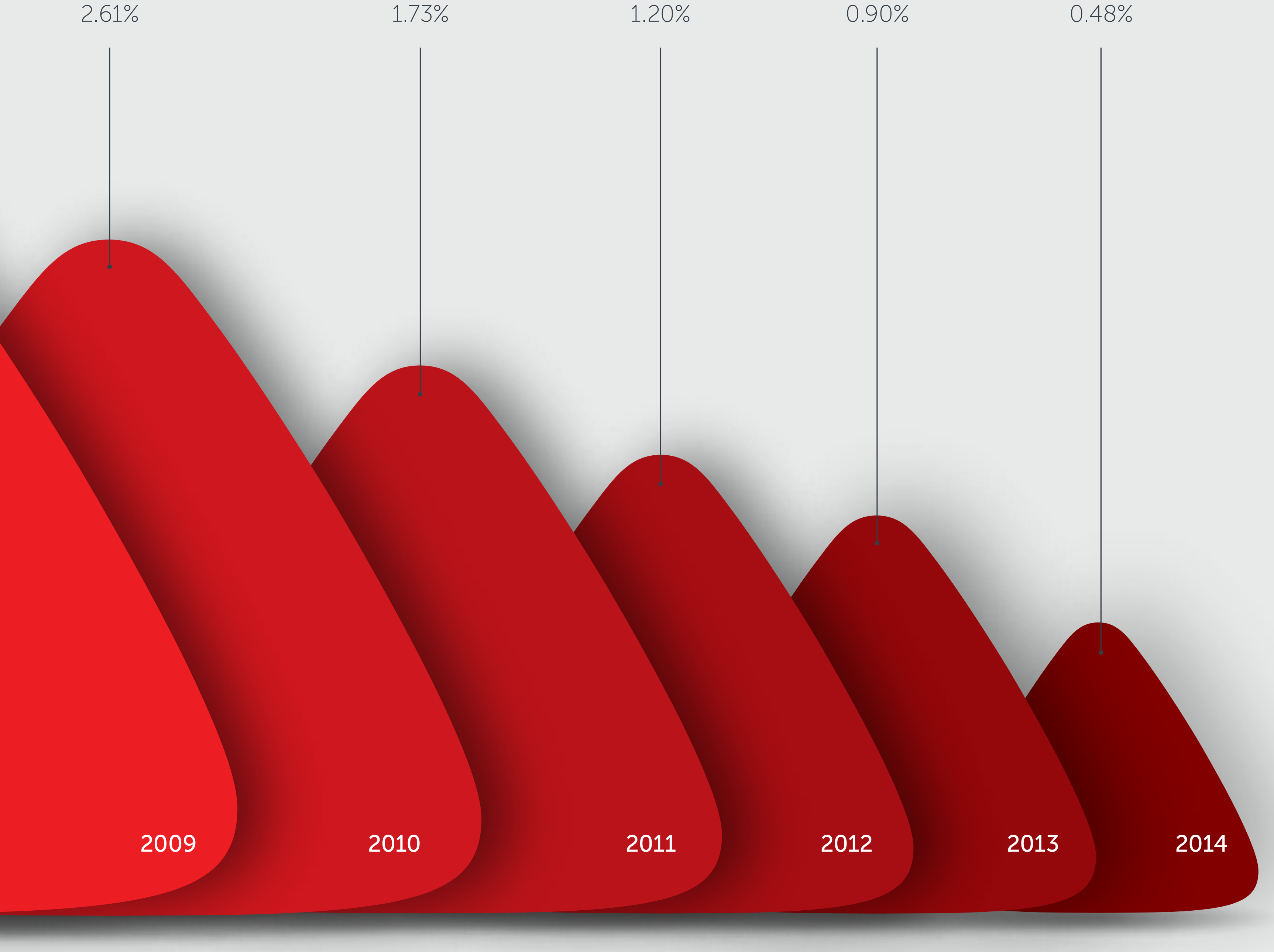
STRATEGY

# 04

## Manage our risk in line with a predefined risk strategy

Effective risk management is fundamental to ADCB's success. Striking a balance between being ambitious and disciplined, our risk appetite has been designed in partnership with our Board to ensure we see both acceptable and sustainable returns on equity whilst protecting the Bank. We are actively embedding a culture of informed risk management across ADCB to ensure we remain true to our predefined risk strategy and risk appetite. This benefits not only the Bank but also the greater UAE business community.

# Cost of Risk



# A Better Way to Contribute

**Tamooha — Empowering Emirati women with a unique work group of their own —** ADCB has created a highly digitised, women-only work group called Tamooha — the first programme of its kind in the Middle East banking sector.

In this unique work group created for Emirati women, hours are flexible and part-time. Participants work either at home or in a dedicated, women-only workspace, or a combination of both depending on individual preferences and lifestyle priorities.

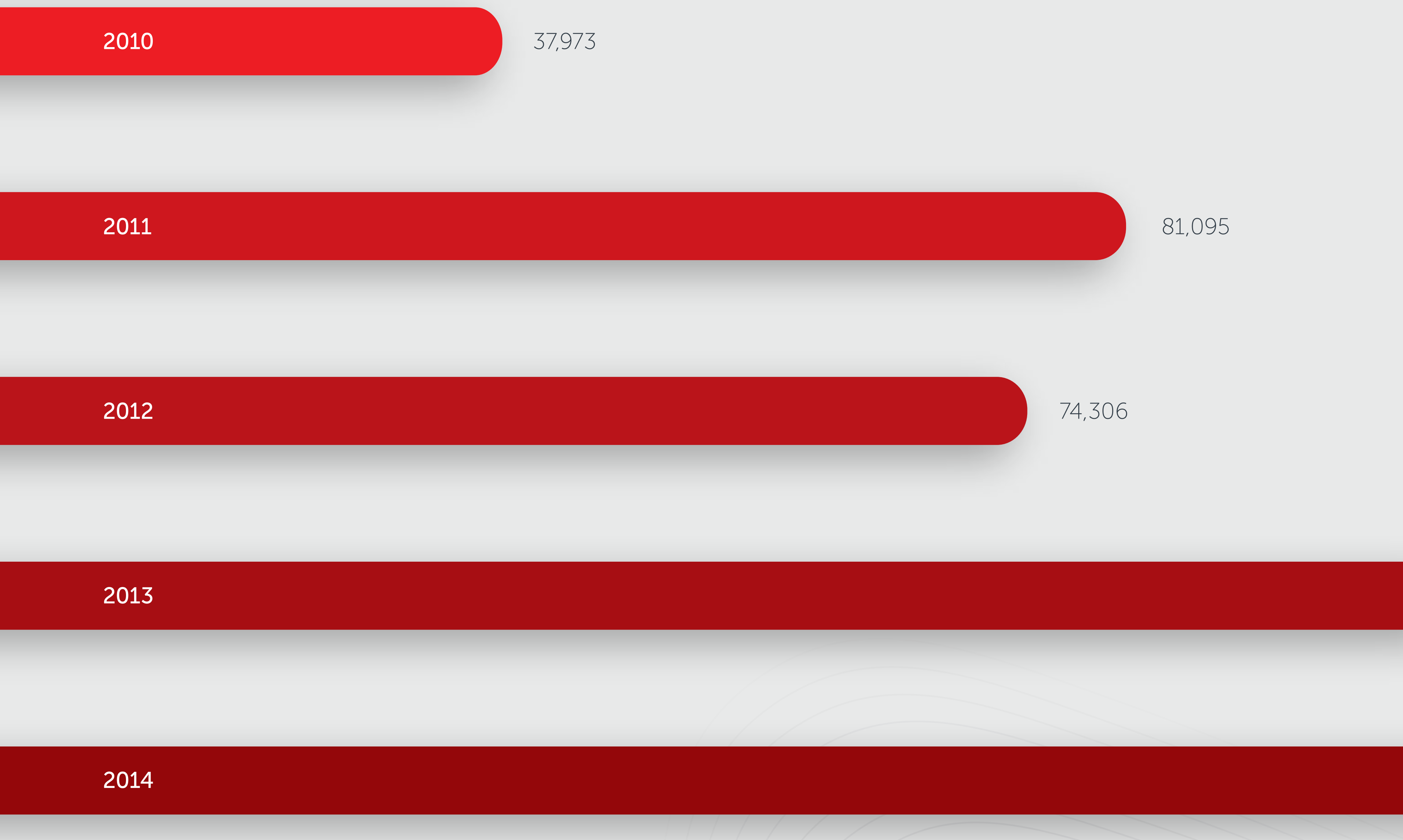
Tamooha has been an outstanding success. The first Tamooha Centre opened in Al Ain, and we intend to expand this innovative initiative into multiple service centres across the UAE.

All Tamooha Centres will be strictly women-only environments, providing candidates with respectful privacy whilst exercising high levels of cultural discretion and understanding. We have also developed an innovative and secure IT system to ensure maximum information security within a safe digital work space.

At ADCB, we believe that empowering women in the workforce has a positive impact on society. Tamooha embodies our commitment to support the ambition of Emirati women who wish to pursue engaging careers without compromising their social norms — giving them a way to apply their talents and contribute to their families and the national economy.

Tamooha's support of the career paths of Emirati women is in line with the Abu Dhabi Economic Vision 2030, and with Absher, the initiative launched by His Highness Sheikh Khalifa bin Zayed Al Nahyan to enhance the labour-market participation of UAE citizens. Tamooha recently received "Nationalisation Initiative of the Year" recognition from the Middle East HR Excellence Awards.

## Training Hours

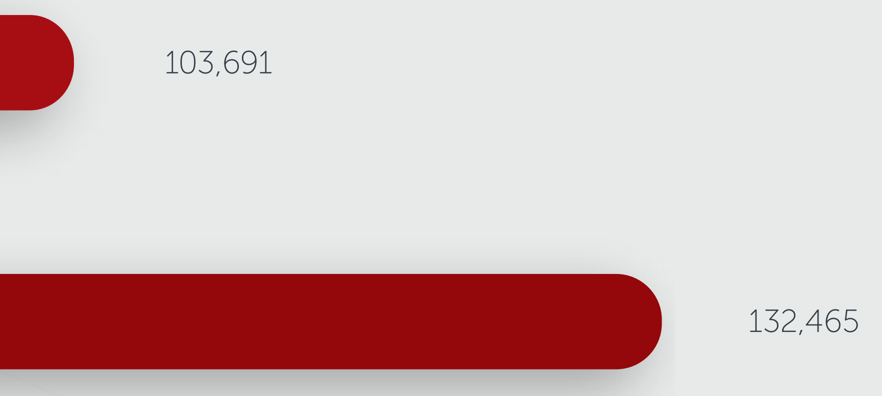


STRATEGY

# 05

## Success through staff

Our mission to build partnerships with customers that last a lifetime is entirely dependent upon the talent and tenacity of our people. At ADCB, we recognise that a bank's primary asset is human capital, and so we expend great energy on attracting, developing and retaining the best talent — with incentives aligned with our strategic objectives. The success of our efforts can be seen in our best-in-class retention rate amongst our peers. Our professional development, function-specific training academies, and career advancement opportunities all work in harmony to promote individual growth and institutional excellence.



01

Growth through a UAE-centric approach, with controlled internationalisation

UAE-Centric

02

Sustainability through liability growth

Sustainable Growth

03

Maintain a culture of service excellence and efficiency

Customer-Centric

04

Manage our risk in line with a predefined risk strategy

Risk-Aware

# Strategy

Our strategy is built upon a robust set of pillars that direct our decision making. This approach has helped us 'ride the roller coaster' of the economic cycle whilst ensuring greater resilience for the Bank moving forward.

The Board has reaffirmed our strategic direction of working to create the most valuable bank in the UAE, as a measure of total shareholder return, with a focus on profitable, sustainable growth and protecting our return on equity through a repeatable core business and operating model. We are risk-aware and prudent in our pursuit of growth and profitability.

This means we will continue with a granular build to our balance sheet, focusing on small and medium enterprises (SMEs), mid-corporates and consumers, whilst increasing emphasis on fee income generation across the Bank. Our risk appetite is always in alignment with our overall strategy to preserve the quality of our portfolio and our long-term prospects.

The enduring value we create for our shareholders, our people and the UAE economy will always continue to set us apart.

## Aspirations

We aspire to strong profitability, consistent and attractive shareholder returns, low earnings volatility, sustained efficiency, and becoming the bank of choice for both consumers and corporates. These aspirations align with the key metrics listed in the table below.

Our goal is to meet or exceed our own standards and establish new benchmarks for the industry, measured against the below metrics and other key performance indicators reported herein.

## Objectives

To deliver on our ambitions and aspirations, management is focused on profitably growing assets and volumes in line with our segments of choice. We will continue to diversify our revenues with increased non-interest income opportunities. We look to further improve our agility and execution capabilities, whilst embedding true accountability into our DNA as a business. And as a customer-centric organisation, we will continue to find better ways to make it simpler for our customers to bank with us whilst delivering best-in-class service.

In order to deliver against these objectives, management has defined a portfolio of initiatives for each operating group. These range from efforts to maximise our market share in trade finance to creating a meaningful presence in remittances; from preserving our growing leadership with SMEs to capturing our fair market share in Islamic banking across consumers and corporate customers; and from creating innovation agendas for our wholesale and retail groups to driving maximum profitability out of our investment book.

| Aspiration | Metric |
|---|---|
| Most valuable | Total shareholder return |
| Most profitable | Return on equity |
| Most resilient | Earnings per share |
| Most efficient | Cost to income ratio |
| Best customer service | Net Promoter Score |

# Measures That Matter

Building a business with sustainable profitability and growth requires a balanced strategy, flawless execution and precise measurement. We regularly measure ourselves against our ambition to become the most valuable bank in the UAE using the range of key performance indicators (KPIs) listed below.

8%

Total Shareholder Return

18%

Return on Equity

74 FILS

Basic Earnings per Share

34%

Cost to Income Ratio

## Total Shareholder Return (TSR)

Calculated as the growth in share price plus dividends paid to shareholders during the year.

TSR is recognised as one of the best measures of achieving a good investment return.

## Return on Equity (ROE)

Calculated as the profit attributable to equity shareholders as a percentage of average shareholders' equity.

To increase ROE, we focus on growing our business where risk-adjusted returns are maximised and capital is efficiently deployed.

## Basic Earnings per Share (EPS)

Calculated as profit attributable to equity shareholders of the Bank as divided by the weighted average of the equity shares in issue during the year.

## Cost to Income Ratio

Calculated by dividing operating expenses by operating income.

We made important changes to our core processes and introduced specialist management techniques to do more with less, and thus became more efficient whilst still investing in our businesses.

## Net Promoter Score (NPS)

NPS is based on customers' likelihood to recommend ADCB to a friend or colleague. NPS is calculated as the percentage of customers who are promoters, rating the company 9 or 10 on a 0 to 10 point scale, minus the percentage who are detractors, rating it 6 or lower.

We have established a new baseline in customer loyalty and satisfaction by embracing Bank-wide NPS, a customer-oriented business measure. NPS accounts for at least 30% of each employee's performance evaluation. We listen to what customers are saying about their experiences with ADCB and react accordingly to drive meaningful improvements in business performance.

# Awards & Recognition

"Hawkamah Bank Corporate Governance Award"

Institute for Corporate Governance

"Procurement Team of the Year — Middle East"

Chartered Institute of Purchasing and Supply Chain (CIPS)

"Nationalisation Initiative of the Year" (for the Tamooha initiative)

The Middle East HR Excellence Awards

"Best Trade Finance Offering"

The *Banker Middle East* Product Awards 2014

"Best New SME Product"

The *Banker Middle East* Product Awards 2014

"Best Deposit Product Business in Middle East"

*The Asian Banker* Magazine

"Best Domestic Cash Management Bank in the UAE"

*The Asian Banker* Magazine

"Best Retail Bank in the UAE"

*The Asian Banker* Awards

"Best Trade Bank in the Middle East and North Africa"

*Trade Finance* Magazine

"Best Overall Bank for Cash Management"

*Global Finance* Magazine

"Best Islamic Trade Finance Bank in the Middle East and North Africa"

*Trade Finance* Magazine

"Best Trade Finance Bank in the UAE"

*Global Finance* Magazine

"Best Corporate Governance in UAE"

*World Finance* Magazine

"Best Corporate Bank" and "Best Transaction Bank"

The *Banker Middle East* Industry Awards

"UAE Domestic Cash Management Bank of the Year"

*Asian Banking & Finance* Magazine

"Best Cash Management Bank in the UAE"

Euromoney Award

"Best Islamic Banking Window in UAE"

The *International Finance* Magazine

"Best SME Customer Service"

The *Banker Middle East* Product Awards 2014

# Business Review

Strong financial performance reinforces ADCB's position as one of the region's leading banks.

ADCB operates through our Consumer Banking, Wholesale Banking, and Treasury & Investments groups. Through these groups, we offer a wide range of products and services to our customers — retail banking, wealth management, private banking, corporate banking, commercial banking, trade finance, cash management, investment banking, corporate finance, foreign exchange, interest rate and currency derivatives, Islamic products, and project finance.

## Consumer Banking Group

Our Consumer Banking Group (CBG) offers a comprehensive suite of conventional and shari'ah-compliant banking solutions tailored into distinct value propositions. CBG offers one of the broadest consumer banking platforms and multi-channel distribution approaches in the UAE, including 50 branches, four pay offices, 301 ATMs, a 24/7 contact centre, leading online banking and mobile applications, tele-sales, and a direct sales model.

CBG meets the banking needs of various customers through comprehensively bundled financial solutions that include deposit and transactional accounts, personal and auto loans, mortgages, credit cards, third-party insurance brokerage, and investment products. In addition, we offer brokerage and offshore banking services, and through our Private Accounts unit, wealth management to ultra-high-net-worth individuals as well as financial support for their businesses.

Our consumer business continues to grow profitably, with a year-over-year rise of 5% in operating income (excluding one-off items, operating income was up 10%, with the core retail banking segment growing by 14%) and an increase of 72% in net profit. Acquisition momentum was strong, with healthy balance sheet growth — 14% growth in customer base led to a 22% increase in retail assets book, and a 24% increase in credit card spend drove a 21% increase in outstanding balances.

CBG's discipline, risk-management capabilities and investment in risk infrastructure supported growth, with a 38% decline in impairment allowances over the prior year. Moving to Scorecard-based decisions and risk-based pricing has led to improved margins with lower delinquency and loss rates in recent years.

ADCB's core strategy of customer-centricity has helped build a sustainable and profitable Consumer Banking business. To enhance our footprint and impact, in 2014 CBG launched a value proposition for the mass-market segment under a new brand, SimplyLife, focused on tapping the market potential of, and ensuring a wider reach within, the bankable population of the UAE.

ADCB's Islamic Banking forms an integral part of CBG and holds high significance both in terms of financial contribution to the overall business of the Bank and in allowing customers the freedom to bank in line with their values and tradition. ADCB Islamic Banking remains a prime driver of growth and contributed 31% of retail assets and 42% of retail liabilities sourced during 2014.

The biggest challenge in 2014 was margin compression due to falling interest rates and strong competition in the operating environment. This was overcome by focusing on volume growth and investing in back-end processing.

As a customer-centric bank, we use technology innovation to reduce complexity and make it simple for customers to bank with us. ADCB is the first bank in the region to launch voice biometrics — VOICEPASS™ — as a means of authenticating customers and allowing them to perform banking transactions via phone or mobile devices more easily and securely. ADCB is also the first bank in the world to offer voice biometrics in three languages — Arabic, English and Hindi. Launched in 2014, VOICEPASS™ effectively enhances the day-to-day banking experience of customers in today's quickly evolving digital-banking environment.

Our comprehensive rebranding initiative, launched in the last quarter of 2013 and continued into 2014, encompassed all aspects of the brand, including a redesigned branch experience. The redesigned branches are intuitive, accessible and welcoming — putting customers' needs centre-stage.

Our strong and leading retail franchise in the UAE has been acknowledged and honoured by a series of awards and accolades from eminent industry observers and authorities from around the world.

CBG remains a key contributor to ADCB's strategy of sustainable growth. The Group's proven consistency in financial performance over the years stems from a focus on earning

### A Better Way to ID

*First-to-market with biometric voice recognition*

ADCB's VOICEPASS™ is a first-to-market innovation in ease-of-use: biometric voice recognition. VOICEPASS supports three languages — Arabic, English and Hindi — and allows customers to use their voice as their identification and authenticate via phone and other mobile devices. No keystroking or passwords needed.

## A Better Way to Protect Success

*Capitalising on the granularity of the SME segment*

Our Small and Medium-Size Enterprise (SME) and Mid-Size Corporate businesses serve critical — and growing — sectors of the UAE economy, giving these vital business owners the banking services and support they need to thrive. SMEs in particular offer the Bank granular growth predicated on deeply involved and mutually beneficial relationships. In early 2014, we acquired the SME loan portfolio of Mubadala GE Capital. This move strengthens our market-leading SME franchise in the UAE, which continues to win new business with award-winning products and customer service.

deep customer loyalty and cross-selling efforts, resulting in optimal revenue at the customer level and a healthy risk-return balance on the portfolio.

We offer distinctive advantages to consumers. We are the only local bank that offers 'free banking' services to qualified customers. Our customer-loyalty programme offers miles on both Etihad Airways (co-branded programme) and Emirates Airlines (through conversion of TouchPoints) in addition to several other lifestyle benefits through TouchPoints. Our online and mobile banking offer superior functionality and a better experience. Rather than having a product focus, we take a needs focus, with menu-based selling that lets the consumer choose from a full array of options. Our customer service and satisfaction, especially in the Excellency segment, score at the highest levels.

Our consumer business continues to face increasing competition in the rapidly evolving banking industry. Consumer behaviour continues to change, and consumers' expectations continue to rise.

Customer-centricity remains the cornerstone of our strategy. Investments in enabling technology and data analytics that drive cross-selling and penetration of untapped market segments will be key drivers of growth going forward.

## Wholesale Banking Group

Our Wholesale Banking Group (WBG) provides ADCB's corporate, business banking, government, public enterprise, and institutional client coverage, as well as cash management, trade finance, financial institution, corporate finance, and investment banking services. WBG is also responsible for ADCB's Indian branches and its international representative office.

WBG focuses on core clients across these segments to grow domestic share, with an emphasis on growing our transaction banking and investment banking capabilities, and leveraging our strength and market leadership in each area. We are willing to use our balance sheet to support the ambitions of our clients, and to capture an increasing share of their business.

Service is a major priority for WBG, with a goal of improving turnaround time on lending requests and processing efficiency, including the use of electronic channels. WBG operates in a very disciplined manner in terms of risk management and is proactive in helping clients that develop financial problems in their businesses, utilising specialist internal resources.

To drive growth, WBG supports the small and medium-size enterprise and mid-size corporate segments in the economy, ensuring these clients have access to highly trained specialists and effective, dedicated Relationship Managers. WBG also looks to build up ADCB's trade franchise and support cross-border business in proximity markets such as India, the Kingdom of Saudi Arabia and Oman. ADCB has opened a representative office in London and has received approval to open one in Singapore.

WBG's financial results for 2014 reflected strong performance across all business and product areas, with an increase of 16% in net profit and an increase of 3% in operating income over 2013. 2014 saw record levels of SME lending which is growing in a

### A Better Way to Bank

*SimplyLife makes basic banking easy, fast and friendly*

simplylife

In our continued drive to bring banking closer to people's needs and ambitions, SimplyLife specialises in simple, quick and accessible personal finance products. A simplified application process with reduced paperwork opens access to financial services ranging from personal loans to auto loans and loans for business owners. And a unique emergency service helps customers receive a priority response for urgent expenses, such as medical care. Customers pay no extra charges for settling loans early, giving them greater financial freedom to achieve their goals in life.

sustainable way, and similarly high growth for mid-size corporates. Our corporate loan book has reached record levels with reduced cost of risk, and the non-performing loans are conservatively provisioned. We set new highs in trade finance, cash management and current account and savings account (CASA) deposits. In cash management, we have a record number of clients across all segments with payment automation now at 95% of all payment activity. World-class cash management capabilities have been used to build an ever-increasing and low-yield CASA book to support ADCB's funding needs at low cost and to develop closer day-to-day relationships and alternate, long-term income streams. There is also strong growth in ADCB India's corporate loan book, with increased profitability.

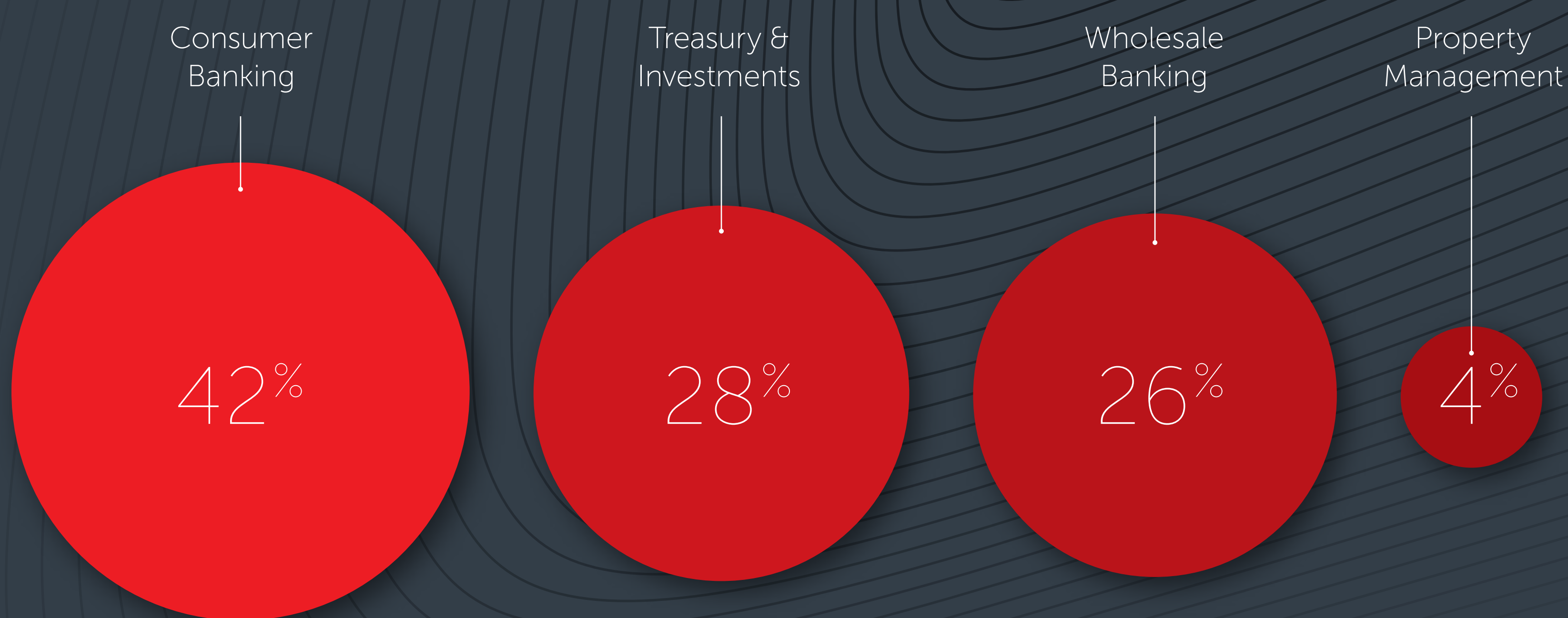
WBG made some significant changes in 2014. Changes in structure have allowed increased senior coverage in our core wholesale client markets across the UAE. Significant customer-service-model improvements across the business are leading to record levels of customer satisfaction across the franchise, as measured by Net Promoter Scores. We continue to invest in and enhance our cash management and trade finance platforms.

WBG addressed a number of challenges throughout the year. Competition on the lending side remains fierce. This has been managed by driving loan growth across a wide set of clients in different segments and remaining disciplined in the business underwritten.

Growing the wholesale loan book was difficult given the relatively higher level of repayments, pre-payments and refinancing of debt from major borrowing clients. This was managed through a strong, diversified and granular lending pipeline. The result is a stronger loan book and acceptable net lending growth across our business.

Loan pricing has been under material amounts of downward pressure. This has been managed by contributing to lower funding costs through pricing down deposits and by the generation of low-yielding CASA deposits. In addition, the business has been selective on lending transactions and careful to manage yield mix through a multi-segment lending approach at the portfolio level.

## Percentage Contribution to Operating Income



The market has also become more competitive in the transaction banking and investment banking space. This has been managed through significant ongoing investment in people, service and systems capability to maintain market leadership.

There has been a very notable pickup in demand for good talent in the market. We continue to emphasise our positive and challenging working environment, improved leadership capabilities, training and development, and the positive benefits created by the changes we made to our structure in 2014 to retain and grow our UAE national and expatriate talent.

Looking ahead, we intend to sustain a suitable level of loan growth across our WBG business segments in 2015, with a focus on business mix, granularity and reduction of loan concentration, whilst continuing to develop our product and channel capabilities to ensure leadership in the market. This includes keeping a close watch on the development of our loan portfolios as they grow and season, whilst ensuring that our discipline and rigour in lending is maintained. Our CASA and fixed deposit books will continue to support a good and cost-effective liability mix for the Bank.

Our success going forward depends on sustaining the trusted advisor status we have with our clients. Our people know we have to earn this every day, in every interaction in our relationship management, and with every solution we develop for and deliver to our clients.

## A Better Way to Secure Stability

*Dubai R.E. escrow business delivering solid returns*

Dubai has seen significant volatility in its real estate market through the last cycle. In downturns this led to some projects not being completed because of a developer's or construction company's financial stress. Working to support the Government of Dubai, we saw an opportunity to step into the marketplace with a solution that brings a good measure of stability: creating an escrow business focused on real estate project sales. This allows the money raised or provided for the completion of a given project to be held and used solely for that purpose, no matter what happens to the players involved, protecting buyer and seller alike. With the recent resurgence of development in Dubai, this fee-based business continues to grow, generating predictable profits and current account and savings account (CASA) balances for ADCB.

## Treasury & Investments Group

The Treasury & Investments Group (Treasury) continued its strong performance in 2014, with a net profit of AED 1.8 bn. Working in close collaboration with external clients and ADCB business groups, Treasury continues to foster a high-performance culture, investing in staff, products and technology to keep abreast of the rapidly evolving market environment.

On an ongoing basis, Treasury has worked on improving the liquidity and capital position of the Bank. The investment portfolio run by Treasury as part of ADCB's liquid asset management strategy has exceeded expectations, and the yield on the money market book has been well-protected in a year when the average three-month AED benchmark rate fell by a third.

2014 was an active year for ADCB in the capital markets, with issuances of circa AED 7 bn, leveraging the capital markets three times in one calendar year. ADCB did its first issuance in the Australian dollar market in 2014 with the intent of diversifying our investor base. ADCB opened the US dollar market for Middle East issuers in 2014 with the first issue of the region, followed by a first five-year issuance from a Middle East bank at a spread of below 100 basis points. Through reverse enquiries, the Bank concluded eight issuances in 2014, being the first issuer in the Middle East to issue longer-dated (over 20 years) zero coupons in the market, followed by two more issues.

The Foreign Exchange business has performed well, with increased client flows and trading activities in 2014. Net gains from dealing in foreign currencies reported an increase of 55% over 2013. Treasury new-product launches resulted in execution of the first foreign exchange pivot target redemption forwards and expanded the suite of commodity hedges offered to clients in the energy segment.

## A Better Way to Support

*Itmam shared services is bringing transformative efficiencies*

ADCB has created a centralised, shared-services subsidiary, Itmam, to bring disciplined efficiency to the way ADCB processes, approves and disburses loans and makes payments. Loosely translated, Itmam means, "We get it done." The subsidiary brings greater focus and speed to the work of data entry, decisioning, and disbursement of loans and payments, and constantly seeks to gain greater efficiencies and improve processes. Gains in productivity and efficiency within Itmam free the ADCB business lines to focus on serving the customer, and delivering a better overall customer experience.

On the technology front, Treasury has successfully implemented new Murex modules for derivatives, straight-through processing for fixed income, and collateral management in 2014. Treasury also implemented its e-commerce platform initiative, focusing on connectivity to global platforms, to transact electronically on best-in-market pricing with its institutional customers.

Treasury acts as the gateway for all financial market transactions between ADCB and many regional central banks and sovereign wealth funds, a business that is diversifying well due to increasing cross-sell activities.

## Group Business Services

Group Business Services (GBS) provides the foundation on which ADCB's business performance and customer service are built. GBS comprises a number of key 'run the bank' and 'change the bank' support functions that keep ADCB operational and agile. Support functions include Group Strategy and Change, Technology Services, Group Operations, Corporate Services and Workplace Protection Services.

GBS responsibilities include managing ADCB's ATM network; providing teller services; managing investments in and the implementation of new technology platforms; keeping technology systems operating and agile; helping to protect stakeholders from fraud; operational risk management; safeguarding physical security; processing billions of dirhams worth of payments; and providing comprehensive online and mobile services to ADCB's customers.

In 2014, GBS processed over AED 4 tn in payments and over 14 million transactions. The Group facilitated more than 14 million online logins, and registered 58,401 new mobile app users. GBS also managed more than 17 million in ATM/CDM transactions on ADCB's 301 ATMs.

Another key responsibility for GBS is driving the customer service agenda across the Bank. In 2014, GBS instituted an enterprise-wide view of service across ADCB, introducing methodology and the reporting of metrics to ensure the Bank delivers on the critical service imperatives of educate, measure, report, improve. GBS continues to lead this customer experience initiative and maintains ongoing overall responsibility for the service architecture.

In addition to focusing on service and agility, GBS helps to maintain ADCB's cost to income ratio within our target range. GBS manages the Bank's capital investment portfolio and is involved in a number of programmes and initiatives aimed at building a robust digitisation foundation to ensure that ADCB maintains its market-leading position well into the future.

Some of ADCB's key ongoing investment initiatives include the Branch Expansion Programme, the Technology Transformation Programme, and the Treasury & Investments Re-platforming Initiative. The start of 2014 saw the launch of Itmam — ADCB's new shared-services subsidiary that brings together key processing and customer service teams to offer an enhanced experience for ADCB's customers.

## Property Management

Our Property Management business stands at the forefront of the Abu Dhabi real estate market and comprises the property management and engineering service operations of our subsidiaries Abu Dhabi Commercial Properties (ADCP) and Abu Dhabi Commercial Engineering Services (ADCE), and the investment properties and rental income of ADCB.

ADCP manages more than 61,000 residential and commercial units throughout the Emirate of Abu Dhabi on behalf of the Department of Finance, Government of Abu Dhabi and others. The units managed on behalf of the Department of Finance are part of a Government-sanctioned initiative whereby Abu Dhabi nationals are granted individual plots of land for the development of either commercial and/or residential buildings. ADCE oversees the construction of those buildings and, when completed, ADCP provides facilities management of the properties, whether residential villas and apartments, business outlets, or office spaces and industrial facilities.

Mindful of giving back to the community, ADCP implemented in 2014 a child-safety programme, installing more than 260,000 fall-prevention devices on residential home windows and balcony doors on properties it manages. ADCP is the only major property management company in the Emirate of Abu Dhabi actively installing these safety devices as retrofits to existing properties.

ADCE provides building design and construction property development services with a focus on high efficiency and exceeding customer requirements, for both the bank's borrowing clients and external parties. This approach has helped make ADCE the partner of choice for complex medium- and large-size regional development projects.

## Human Resources

The people of ADCB embody our overarching ambition to create the most valuable bank in the UAE. Our approach to human resources begins and ends with this ambition, and so is founded on a commitment to excellence.

It takes excellence to deliver superior value. We look for high-calibre individuals — people with talent and great ambitions of their own — and provide them with world-class training and support.

Our high-performance culture sets high expectations, but we also enable and empower our people to achieve more every year, both professionally and personally. Our workplace is a welcoming and stimulating environment where people with ambition and discipline can thrive.

Professional development is essential to our future. We have implemented a systematic approach to identifying, developing and deploying our talent to ensure a consistent supply of high performers equipped with the values, skills and experience required for both current and future key positions. In 2014, we continued to build consistency across our learning curricula and to enhance the relevance and depth of our learning programmes. We have endeavoured to achieve a standard of excellence by simultaneously focusing on leadership, values and technical capability.

Our performance management system sets ambitious objectives and offers all the support needed to achieve them, including Ambition University training programmes, continuous performance feedback, and coaching and mentoring in an environment of mutual support that nurtures personal and professional growth.

Performance management is vital in enabling our employees to build long-term partnerships with our customers through outstanding service, as well as strong supporting relationships with one another. ADCB's performance, reward and recognition strategy is designed to ensure sustainable performance and flawless strategy execution.

Our success comes from a workforce that is diverse, highly engaged and dedicated to constantly building mutually rewarding, long-lasting relationships with our customers. We embrace diversity of every kind and welcome unique perspectives, because we wish to foster open-mindedness and innovation whilst reflecting the extensive diversity of our customer base.

Being purposefully diverse brings together a wide range of experiences and insights within the Bank and acts as a catalyst for creativity. Our workforce is made up of a dynamic group of people across a spectrum of backgrounds in terms of age, gender, nationality, religion, socioeconomic status, and disabilities.

We aim to be recognised as an employer of choice and therefore seek to maintain world-class standards that go well beyond legal requirements — as well as good employee relations at our workplaces. Our policies and practices promote fair, nondiscriminatory behaviour and a collegial atmosphere, as well as physical and emotional wellbeing.

The effectiveness of our efforts can be seen in our employee engagement scores, which rank higher than the global banking index, at par with global high-performance companies.

Our Emiratisation strategy fully aligns with and constantly reinforces the Abu Dhabi Vision 2030. We work hard to create opportunities for meaningful and rewarding



contributions to each individual's success and, thereby, in aggregate, to the sustainable growth of the nation. ADCB employs and empowers UAE nationals through a wide range of award-winning Emiratisation programmes.

Tamooha, a first-of-its-kind programme in this region, offers Emirati women a part-time, highly digitised, women-only work group. Created through a close partnership between the business and the HR groups, Tamooha recently received "Nationalisation Initiative of the Year" recognition from the Middle East HR Excellence Awards. (See page 32 for a fuller description of Tamooha.)

ADCB's Emirati Graduate Development Programme (EGDP) is a world-class programme for UAE national graduates, taking participants on a journey that will enable them to fulfil their professional and career ambitions. The objective is to prepare recent UAE national graduates to take on full-time job responsibilities within specified business areas across ADCB. The multifaceted programme offers practical business experience through sequential and strategic job rotations, technical-skills training, and professional-qualifications development in relevant fields. During 2014, ADCB developed approximately 80 UAE national graduates of the EGDP and transitioned them from trainees into full-time productive employees.

At a country level, ADCB has partnered with the Ministry of Presidential Affairs through the Absher initiative. This initiative is based on four pillars: creating jobs; training and rehabilitating the UAE national workforce; increasing hiring in the private sector; and developing and encouraging the role of the private sector within the UAE. Through Absher and similar future initiatives, ADCB will continue to provide UAE nationals with the training they need to develop their leadership and managerial skills, providing young and talented UAE national graduates with opportunities to accelerate their careers and hold managerial positions across different lines of business within the private sector, whilst facilitating financial stability and successful career trajectories.

We make all of these efforts to develop and inspire our people because we understand that in our business, like any other, the greatest value arises from human capital.

# Board of Directors Profiles

**Eissa Mohamed Al Suwaidi**
*Chairman*

Eissa Mohamed Al Suwaidi was appointed by the Government of Abu Dhabi to join the ADCB Board of Directors and was elected as Chairman of ADCB in September 2008. Eissa Mohamed Al Suwaidi has more than 20 years of experience in asset management and banking.

Bachelor of Economics
(Northeastern University, USA)

**ADCB Committee Memberships:**
*Chairman* – Risk & Credit Committee

*Member* – Nomination, Compensation & HR Committee

**External appointments:**
*Chairman* – Emirates Telecommunications Corporation (Etisalat)

*Vice Chairman* – Maroc Telecom (since May 15, 2014)

*Executive Director* – Abu Dhabi Investment Council

*Board Member* – Abu Dhabi National Oil Company for Distribution, International Petroleum Investment Company, Abu Dhabi Fund for Development, Emirates Investment Authority

**Mohamed Sultan Ghannoum Al Hameli**
*Vice Chairman*

Prior to joining the Finance Department of the Government of Abu Dhabi, Mohamed Sultan Ghannoum Al Hameli was the Assistant Director of the European Equities Department of Abu Dhabi Investment Authority (ADIA). He was appointed by ADIA to join the ADCB Board of Directors in October 2004.

Bachelor of Finance
(Boston University, USA)

General Manager Program
(Harvard Business School)

Chartered Financial Analyst
(CFA Institute)

**ADCB Committee Memberships:**
*Chairman* – Nomination, Compensation & HR Committee

*Member* – Risk & Credit Committee

**External appointments:**
*Director General* – Abu Dhabi Finance Department

*Chairman* – National Health Insurance Company (DAMAN)

*Board Member* – Abu Dhabi Public Service Co. (Musanada), Social Welfare & Minor Affairs Foundation

**Ala'a Eraiqat**
*Executive Director, Group Chief Executive Officer*

Ala'a Eraiqat joined ADCB in January 2004 and held various senior posts before taking over as Chief Executive Officer and also becoming a member of ADCB's Board of Directors in February 2009. He has been a banker since 1991 and previously held senior positions at Citibank and Standard Chartered Bank, among others.

His responsibilities extend to chairing the following subsidiaries and committees of ADCB, among others: Abu Dhabi Commercial Properties, Abu Dhabi Commercial Engineering Services, ADCB Securities, ITMAM Services, the Management Executive Committee and the Management Risk & Credit Committee.

**External appointments:**
*Board Member* – Abu Dhabi National Hotels PJSC (ADNH), MasterCard Asia/Pacific, Middle East & Africa Regional Advisory Board, and Mubadala Infrastructure Partners Advisory Board

**Personal awards:**
Named in 2011 as the No. 1 CEO among the Top 50 CEOs from 300 companies in Saudi Arabia and the UAE by *Trends*, an international magazine on Arab affairs; received *The Asian Banker* "Promising Young Banker Award" for the Gulf region 2007; and in 2009, chosen by *Arabian Business* as one of the GCC's "Most Admired Executives."

## Mohamed Darwish Al Khoori

*Director*

Mohamed Darwish Al Khoori has 25 years of experience in asset management and its related areas. Since 2008, he has been the Executive Director of the Internal Equities Department at Abu Dhabi Investment Authority.

In May 2004, Mohamed Darwish Al Khoori was nominated by the Government of Abu Dhabi to join the ADCB Board of Directors. He was subsequently elected in April 2006 by ADCB shareholders to act as an ADCB Director, and, in March 2009, he was again nominated by the Government of Abu Dhabi.

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

General Manager Program
(Harvard Business School)

**ADCB Committee Memberships:**
*Chairman* – Audit & Compliance Committee

**External appointments:**
*Chairman* – Oman & Emirates Investment Holding Company

*Member* – The Financial Corporation (FINCORP) Board

*Member* – The Financial Corporation (FINCORP) – Audit Committee

*Board Member* – Abu Dhabi Global Market

*Executive Director* – Abu Dhabi Investment Authority (ADIA) – Internal Equities Department

*Member* – ADIA's Investment, Alpha and Management Committees

## Abdulla Khalil Al Mutawa

*Director*

Abdulla Khalil Al Mutawa is a competent and dedicated investment professional with more than 30 years of experience and a comprehensive background in finance and administration. He was nominated by ADCB shareholders to join the ADCB Board of Directors in March 1997.

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

**ADCB Committee Memberships:**
*Member* – Nomination, Compensation & HR Committee

*Member* – Audit & Compliance Committee

**External appointments:**
*General Manager* – Office of Sheikh Suroor bin Mohammed Al Nahyan

*Board Member* – Alfalah Exchange Company, Abu Dhabi, UAE; UAE Banks Federation; Wateen Telecom Limited, Pakistan; and Al Falah Limited

Bank Alfalah:
*Chairman* – Board Strategy & Finance Committee
*Chairman* – Board Human Resources Committee
*Member* – Board Audit Committee
*Member* – Board Risk Management Committee
*Member* – Board Compensation Committee

*Former Director* – Warid Telecom (Pvt) Limited



## Khaled H Al Khoori

*Director*

Khaled H Al Khoori was elected by ADCB shareholders to join ADCB's Board of Directors in April 2012. Since January 2006, he has been the Chairman of Orient House for Development & Construction.

Master of Civil Engineering
(Northeastern University, USA)

Bachelor of Civil Engineering
(Northeastern University, USA)

**ADCB Committee Memberships:**
*Member* – Risk & Credit Committee

**External appointments:**
*Chairman* – Orient House for Development & Construction

*Board Member & Chairman of Capital Expenditure Committee* – Abu Dhabi National Hotels (ADNH)

## Mohamed Ali Al Dhaheri
*Director*

Mohamed Ali Al Dhaheri was appointed by Abu Dhabi Investment Council (ADIC) to join the ADCB Board of Directors in May 2007. Prior to joining ADIC in 2007, Mohamed Ali Al Dhaheri was the Chief Operating Officer of the Treasury Department in Abu Dhabi Investment Authority.

Currently, he is the Executive Director of the Accounting & Financial Services Department at Abu Dhabi Investment Council.

Bachelor of Business Administration (International University of America)

**ADCB Committee Memberships:**
*Chairman* – Corporate Governance Committee

*Member* – Nomination, Compensation & HR Committee

**External appointments:**
*Board Member* – Abu Dhabi Investment Company, Al Hilal Takaful

*Member* – Abu Dhabi Investment Council's Investment Committee, Administrative Committee & Chairman of Investment Operations Committee and Abu Dhabi Investment Company – Remuneration Committee

*Chairman* – Al Hilal Takaful's Investment Committee

*Member* – Al Hilal Takaful's Audit Committee

## Sheikh Sultan bin Suroor Al Dhahiri
*Director*

Sheikh Sultan bin Suroor Al Dhahiri was elected by ADCB shareholders to join the ADCB Board of Directors in March 2009.

Master of Business Administration (Abertay Dundee University, UK)

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

**ADCB Committee Memberships:**
*Member* – Corporate Governance Committee

**External appointments:**
*Chairman* – SSD Group, Abu Dhabi Maritime & Mercantile International Co.

*Board Member* – National Corporation for Tourism & Hotels

## Khalid Deemas Al Suwaidi
*Director*

Khalid Deemas Al Suwaidi was appointed by the Abu Dhabi Investment Council to join the ADCB Board of Directors in March 2009, and in 2012 was nominated and elected by ADCB shareholders to act as an ADCB Director. He has approximately 15 years of banking experience, having held senior management positions with National Bank of Abu Dhabi and First Gulf Bank.

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

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

**ADCB Committee Memberships:**
*Member* – Corporate Governance Committee

**External appointments:**
*Chairman* – Emirates & Morocco Trading & General Investment, United Tina

*Vice Chairman* – Manazel Real Estate Company and Abu Dhabi National Takaful Company

*Chief Executive Officer* – Das Holding

*Board Member* – Citiscape Group Company

### Aysha Al Hallami
*Director*

Aysha Al Hallami is currently a Research Manager in the Strategy Unit of H.H. the Managing Director's Office at Abu Dhabi Investment Authority (ADIA). She is part of the Strategic Research Team that is responsible for ADIA's portfolio construction, as well as strategic and tactical asset allocation decisions.

Chartered Financial Analyst, CFA Institute

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

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

**ADCB Committee Memberships:**
*Member* – Audit & Compliance Committee

*Member* – Risk & Credit Committee



### Omar Liaqat
*Director*

Omar Liaqat is the Chief Operating Officer at Abu Dhabi Investment Council. He is an experienced professional with more than 30 years of experience in a wide range of industries in the financial, auditing and management areas. He was a member of the founding team of the Abu Dhabi Investment Council, prior to which he worked at Abu Dhabi Investment Authority (ADIA) for 19 years. At the onset of his career, he worked in the auditing profession with a host of high-profile clients in the UK and US.

Chartered Accountant (Fellow) from England & Wales Institute

**ADCB Committee Memberships:**
*Member* – Audit & Compliance Committee

*Member* – Corporate Governance Committee

**External appointments:**
*Chief Operating Officer* – Abu Dhabi Investment Council

*Member* – Audit Committee – Abu Dhabi National Insurance Company

*Member* – Audit Committee – Abu Dhabi Fund for Development

### Sir Gerry Grimstone
*Adviser*

ADCB appointed Sir Gerry Grimstone as adviser to its Board of Directors in January 2013. He brings significant international expertise and experience in investment banking and the financial services industry, and serves on the boards of several high-profile public and private sector companies.

He was previously a senior investment banker at Schroders and an official in the UK's HM Treasury. He was responsible for privatisation and policy for state-owned enterprises and helped oversee HM Treasury's Operational Efficiency Programme. He has also served as one of the UK's business ambassadors.

**External appointments:**
*Chairman* – Standard Life

*Chairman* – TheCityUK

*Lead Non-Executive Director* – UK Ministry of Defence

*Independent Non-Executive Director* – Deloitte LLP

*Board Member* – UK Government's Shareholder Executive

# Executive Management Profiles

*(left to right)*

**Abdirizak Mohamed**
*Group Chief Internal Auditor*

Abdirizak has been the Group Chief Internal Auditor at ADCB since 2006, having previously worked at the NASDAQ Stock Market, NASD (FINRA) and OFHEO (FHFA). He has more than 20 years of financial industry experience that spans capital markets management, accounting policy/applications, examinations and auditing, risk management, regulatory oversight, and corporate governance. Currently, he serves as an Audit Committee member of various Abu Dhabi–based companies. Abdirizak is a Certified Public Accountant, and holds a Bachelor's degree from the University of Washington in Seattle and a Master's degree from the George Washington University in Washington, DC.

**Arup Mukhopadhyay**
*Group Head of Consumer Banking*

Arup joined ADCB in 2005 and is Head of the Consumer Banking Group. He had previously spent seven years with Citibank, becoming Head of Wealth Management products and Marketing Director for its UAE Consumer business. Before that he worked with Unilever in India in several sales and marketing roles. Arup is a Mechanical Engineering graduate and holds an MBA from the Indian Institute of Management, Lucknow.

**Simon Copleston**
*Group General Counsel and Board Secretary*

Simon has been General Counsel and Board Secretary at ADCB since 2008. After graduating from Durham University in the UK, he practised corporate law in the City of London for eight years. He joined Abu Dhabi Investment Authority in 2006, acting as lawyer to the Emerging Markets Department and the Strategic Investment and Infrastructure teams. He has more than 16 years' experience in banking, finance, and corporate law.

Simon is a UK-qualified solicitor and has been highly instrumental in the Bank's recent recognition as a regional leader in corporate governance.

**Ali Darwish**
*Group Head of Human Resources*

Ali is an experienced banking professional who has worked at senior executive levels since 1998. He is Head of Human Resources for ADCB. Ali's distinguished career in banking began in 1988, when he joined British Bank of the Middle East (HSBC currently). Before joining ADCB, he was a key part of organisations such as Tamweel, Dubai Islamic Bank (DIB) and ABN AMRO. Under Ali's leadership, his DIB subsidiary was voted Best Organisation by the Board of Islamic Financial Services. At ADCB, Ali focuses on developing and empowering the HR team, whose achievements are continuously being recognised by various awards, particularly with the area of Emiratisation.

**Kevin Taylor**
*Group Treasurer*

Kevin joined ADCB in 2009 as Head of the Treasury and Investments Group. He has held significant treasury and risk positions in global organisations such as ALICO, Citigroup, Westpac Bank and Merrill Lynch. At ADCB, he is responsible for a front office staff of 40, including FX trading and sales, derivative trading and sales, and fixed income and investments personnel, along with money market and balance sheet analytics teams. Kevin is the Chairman of the UAE Banks Federation's Financial Markets Committee and holds an MBA from Macquarie University in Australia.

**Ala'a Eraiqat**
*Group Chief Executive Officer, Executive Director*

Ala'a Eraiqat joined ADCB in January 2004 and since then has held various senior posts, before taking over as Chief Executive Officer and also becoming a member of ADCB's Board of Directors in February 2009. He previously held senior positions at Citibank and Standard Chartered Bank, among others.

His responsibilities extend to chairing the following subsidiaries and committees of ADCB, among others: Abu Dhabi Commercial Properties, Abu Dhabi Commercial Engineering Services, ADCB Securities, ITMAM Services, the Management Executive Committee and the Management Risk & Credit Committee.

**Jerry Möllenkramer**
*Group Chief Operating Officer*

Jerry was appointed Group Chief Operating Officer following ADCB's acquisition of the Royal Bank of Scotland's retail banking business in the UAE in 2010. He was previously Chief Operating Officer for Royal Bank of Scotland's Middle East and Africa franchise, a position he held from 2008. He also served as an Executive Director for ABN AMRO's Group Services Division, and before that fulfilled various directorships within ABN AMRO's Wholesale Division. Jerry holds a BA from the University of California and an MBA and Master's in Business Informatics from the Rotterdam School of Management.

**Deepak Khullar**
*Group Chief Financial Officer*

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

**Colin Fraser**
*Group Head of Wholesale Banking*

Colin completed his Master of Arts in Financial Economics at the University of Dundee, receiving the Bowie Memorial Prize for top economics graduate. He is an Associate of the Chartered Institute of Bankers and a Fellow of the Royal Society for the Arts. Colin joined Barclays Bank in 1992 and undertook various roles as an international banker. In 2007, he was appointed Barclays' Corporate Banking Director, GCC, joining ADCB a year later as Executive Vice-President and Head of the Wholesale Banking Group.

**Abdulla Khalifa Al Suwaidi**
*Group Head of Government Relations*

Abdulla joined ADCB as Executive Vice-President and Head of Government Relations in 2010, after being the Vice-President of Dubai Islamic Bank's Wealth Management Division. He is the Managing Director of ADCB's subsidiaries: Abu Dhabi Commercial Properties LLC and Abu Dhabi Commercial Engineering Services LLC. Abdulla is responsible for obtaining the ISO certification by Lloyd's Register Quality Assurance for both companies. He is a member of ADCB's MEC, Vice-Chairman of the ADCP & ADCE boards and Chairman of Abu Dhabi Commercial Islamic Finance Company (ADCIF).

Abdulla has 16 years' experience in banking and business management. He holds Master's degrees in Business Administration and Science in Management from Colorado Technical University, USA, with double majors in Business Management and System Management.

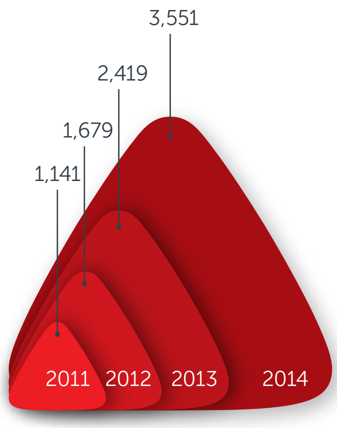
**Kishore Rao Naimpally**
*Group Chief Risk Officer*

Kishore joined ADCB as Chief Risk Officer in 2009, having started his banking career with State Bank of India, where he spent 12 years in diverse roles. He also spent 13 years at ABN AMRO, handling various assignments across Asia, Europe and North America, and was previously Chief Credit & Risk Officer at Arab Banking Corporation, responsible for enterprise-wide risk-management implementation. Kishore is a member of ADCB's MEC, MRCC, MRC and ALCO. As the Bank's first CRO, Kishore is charged with setting up, embedding and expanding the risk framework. He is a qualified cost accountant and corporate secretary and holds a degree in physics.

# Sustainability

ADCB has been facilitating long-term economic development, primarily in the UAE, since our founding in 1985. We recognise that our ambition to make ADCB the most valuable bank in the UAE compels us to take a more integrated approach to sustainability, both in our actions as a business and in our annual reporting practices. As such, we voluntarily embraced sustainability reporting starting in 2012, applying the Global Reporting Initiative (GRI) Guidelines. We remain committed to transparency and accountability in the areas of corporate, social and environmental responsibility, in addition to our long-standing commitment to financial and governance transparency and disclosure.

The following pages summarise and highlight some of our key sustainability achievements in 2014.




SME Gross Loans (AED MN)

## Our Contribution to UAE Economic Growth

At ADCB, we embrace our role as a catalyst for helping the UAE to prosper. The biggest impact we have is through the businesses we finance. By providing finance efficiently and responsibly, we generate value for our shareholders whilst creating value more broadly for society.

### Small and Medium-Size Enterprises (SMEs)

SMEs are an essential component of a successful economy and host the majority of employment opportunities in the UAE. Building SME business is a priority for ADCB. During recent years, our SME business has grown significantly in alignment with our strategic objectives.

### Islamic Finance

The principles of Islamic finance support financial stability and corporate social responsibility, offering mutuality, sustainability, interest in the business of all parties concerned and interest in the success of the end result. This serves to insulate the Islamic financial system from excessive leverage, speculation and uncertainty, which in turn promotes sustainability. ADCB offers focused and differentiated shari'ah-compliant financial solutions to individual and corporate customers through ADCB Islamic Banking and Abu Dhabi Commercial Islamic Finance Company (ADCIF).

### Trade Finance

As a leading bank in the UAE, ADCB plays a key role in supporting trade in the region. ADCB's specialist trade expertise and global reach have enabled our customers to develop and



## Our progress in managing sustainability to date

### 2007–2010

- Published corporate social responsibility (CSR) reports showcasing year's community events

### 2011

- Developed a reporting framework following Global Reporting Initiative (GRI) G3.1 Reporting Guidelines

### 2012

- Published 2011 Sustainability Report (GRI G3.1, Level B)
- Ranked 6th in Standard & Poor's/Hawkamah Pan-Arab Environmental Social Governance (ESG) Index

### 2013

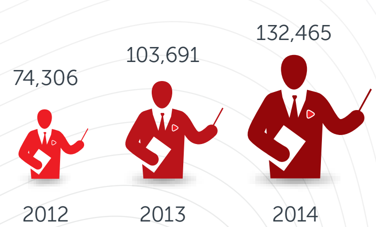
- Published 2012 Sustainability Report (GRI G3.1, Level B, GRI checked)
- Joined Abu Dhabi Sustainability Group (ADSG)
- Introduced ESG criteria into supplier selection process
- Ranked 4th in Standard & Poor's/Hawkamah Pan-Arab Environmental Social Governance (ESG) Index
- Created formal full-time position to lead and coordinate sustainability

### 2014

- Published 2013 Sustainability Report (GRI G4, Core)
- Ranked 4th in Standard & Poor's/Hawkamah Pan-Arab Environmental Social Governance (ESG) Index
- Reported to the Board of Directors and senior management on sustainability
- Published ADCB sustainability policy
- Finalist, "Best Contribution to Corporate Responsibility," CIPS Middle East Awards 2014 for introducing ESG criteria into supplier selection process
- Delivered sustainability awareness training to staff through internal and external seminars, educational tours and intranet communications


Letter of credit and guarantees (AED MN)


Gross Islamic financing assets (AED MN)




Total number of training hours

implement tailored solutions across supplier/buyer networks, resulting in significant cost savings and increased resource flexibility. We have shifted to a more efficient and open account-transaction system, allowing savings in costs and time. ADCB's dedicated Trade Finance team caters to the advisory needs of our customers. Over the last few years, our trade financing activities have increased year over year, which serves as an impetus to the UAE's economic growth.

## How We Do Business Responsibly

### Governance

Good governance is key to sustainability. ADCB embraces sound corporate governance practices that enhance shareholder value. In an environment of increased regulatory and reporting requirements, our Board strives to maintain a balance between compliance and the need to deliver sustainable performance to shareholders.

In 2014, ADCB won the Hawkamah Bank Corporate Governance Award for the second time in three years, the highest such accolade in the Middle East and North Africa region. Hawkamah, the Institute for Corporate Governance, recognises banks that have gone the extra mile in improving their corporate governance practices, beyond the legal and regulatory requirements imposed by their respective jurisdictions.

### Ethical Banking

ADCB's Code of Conduct and robust policies provide a foundation for the stability and sustainable growth of the Bank. Compliance with the ADCB Code of Conduct and applicable regulations is the responsibility of every employee of ADCB. Accordingly, we have instituted processes and policies to ensure enterprise-wide awareness and implementation of control procedures and to prevent any unethical practices, such as money laundering. These include:

- Regulatory Compliance Programme
- Anti-Money Laundering (AML)/Counter Financing Terrorism (CFT)
- Sanctions Compliance
- Conflict of Interest Management (Personal Trading Policy)
- Anti-Bribery Guidelines
- Whistle-Blowing Policy

In 2012, ADCB introduced e-learning modules across the areas of Compliance, AML, Sanctions, Operational Risk, Fraud Prevention and Information Security. In 2014, many of these courses became mandatory yearly requirements for all employees.

## Investing in Our Communities

The UAE Vision 2021 and the Abu Dhabi Economic Vision 2030 both emphasise the importance of investing in our communities in order to develop a sustainable UAE economy. ADCB shares this focus and commitment. We contribute to positive social and economic outcomes through strategic partnerships and investments in significant social and environmental causes. We also facilitate the ability of our customers to contribute to beneficial causes through our ATMs and e-platform services. Several of our products and services are designed to specifically address community needs and ambitions (including education loan products and savings accounts for children and UAE nationals). Finally, we voluntarily undertake initiatives designed to improve the wellbeing of our communities.

### Financial Contributions

ADCB invests in our communities through direct donations to and sponsorships of multiple organisations that focus on various social, cultural and environmental concerns. In 2014, over AED 16 mn (direct and indirect contributions) in community investments was directed to local organisations, such as the Al Jalila Foundation, Sheikh Zayed Heritage Festival and Ataya. ADCB has also developed strategic partnerships with a number of organisations to support social and environmental causes, including the Khalifa bin Zayed Al Nayhan Foundation, the Al Bait Mutwahid Society, the Emirates Foundation, Red Crescent and the Emirates Wildlife Society-World Wildlife Fund.

## Total community contributions

| | Total direct community distributions (AED'000) | Indirect community distributions (ATM donations) (AED'000) | Indirect community distributions (Internet donations) (AED'000) | Total contributions (AED'000) |
|---|---|---|---|---|
| **2012** | 8,768 | 819 | 2,322 | 11,908 |
| **2013** | 9,211 | 764 | 3,495 | 13,470 |
| **2014** | 12,132 | 1,390 | 2,941 | 16,463 |

### Breast Cancer Awareness "Pink Month"

Each year, ADCB organises several community events during the month of October — "Pink Month" — to facilitate awareness of and fundraise for breast cancer. In 2014, ADCB partnered with and raised funds for the Al Jalila Foundation through a number of initiatives:

- The ADCB Tree of Hope — This fibreglass tree-shaped structure spreads messages of hope and positivity at breast cancer events. For each AED 10 donation, a member of the public can write their message of hope on a paper leaf, which is then placed on the tree.
- ADCB Zayed Sports City 5K & 10K Pink Run
- ADCB Pink Polo — Pink Polo is a bespoke charity match held at Ghantoot Polo Club in aid of breast cancer awareness, in conjunction with the Abu Dhabi Health Authority.
- ADCB Pink Golf Day — ADCB clients are invited to play golf with ADCB's senior management and key ADCB breast cancer awareness partners.
- Donate a Dirham Campaign — During Pink Month, ADCB ATM users are given the opportunity to donate AED 1 towards breast cancer awareness at the end of each transaction.
- ADCB Pink Lady Day — This golf event raises funds for Breast Cancer Arabia to help those patients in the UAE who cannot afford treatment.

ADCB sponsorships in 2014 totalled over AED 10 mn

### Promoting UAE Culture

ADCB supports UAE culture through sponsorships and donations, recruitment and professional development practices for UAE nationals, internal Emirati-culture initiatives, and through Islamic banking products and services.

ADCB's sponsorships in 2014 included:

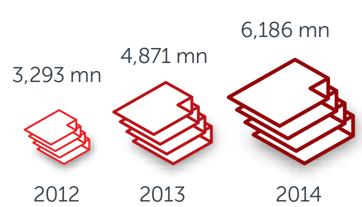
- Emirates Foundation, which delivers public-private–funded initiatives to improve the welfare of UAE youth
- Sheikh Zayed Heritage Festival, which pays homage to the late Sheikh Zayed bin Sultan Al Nahyan, the founder of the UAE, and honours the rulers of the seven Emirates. Sponsorships in 2014 totalled AED 1,500,000.
- Sheikh Khalifa bin Zayed Al Nayhan Foundation, whose vision is "Pioneering initiatives for Welfare" and whose strategies focus on health and education domestically, regionally and globally.

ADCB proactively attracts and develops UAE national talent through numerous initiatives, including: targeted recruiting through the Washington Career Fair and various local career fairs; active contribution to the Ministry of Presidential Affairs' "Absher" initiative; the ADCB Emirati Graduate Development Programme; and the ADCB Emirati Academy Programme.

ADCB's Emirati Committee is dedicated to the development of Emirati nationals through various activities and tools designed to enhance their skills and capabilities, such as training, mentoring, and performing socially responsible activities.


Emirati Millionaire Savings Account Book (AED MN)

Zero incidents of human rights violations in 2014




6,186 mn sheets of paper saved through e-statements in 2014

### Our Products and Services

ADCB has delivered several products and services to the UAE market that support, promote, recognise and value local needs and cultural traditions. ADCB's Islamic Banking window provides shari'ah-compliant products and services, such as the Child Saver Account and the Emirati Millionaire Savings Accounts.

### Health & Safety

Our subsidiary ADCP commenced an initiative in late 2013, in partnership with the Abu Dhabi Municipality, in order to renovate older buildings under ADCP management. By the end of 2014, ADCP had completed the installation of fall-prevention child-safety devices on approximately 90% of its portfolio across the UAE.

## Empowering Our People

At ADCB, we understand that in our business, like any other, the greatest value arises from human capital. The people of ADCB embody our overarching ambition to create the most valuable bank in the UAE through sustainable growth. Our approach to human resources is to select for, develop and inspire excellence and the ability to deliver superior value. We look for high-calibre individuals — people with talent and great ambitions of their own — and provide them with world-class training and support to meet the high expectations of our high-performance culture. Our workplace is a welcoming, diverse and stimulating environment where people with ambition and discipline can thrive.

For a fuller description of our approach to human resources as a responsible employer, including our award-winning efforts to promote Emiratisation and diversity, please see pages 47–49 of this report.

### Human Rights

ADCB closely observes UAE federal laws to ensure that our practices preclude child labour, forced labour and discrimination. This is reinforced through our Code of Conduct as well as systemic remediation mechanisms, including our employee grievance and whistle-blowing processes.

## Managing Our Environmental Impact

As a responsible citizen, ADCB manages our environmental impact by measuring our energy and waste consumption, introducing initiatives to reduce our impact, supporting organisations dedicated to protecting the environment and raising awareness on the importance of safeguarding the environment.

### Our Electricity Consumption

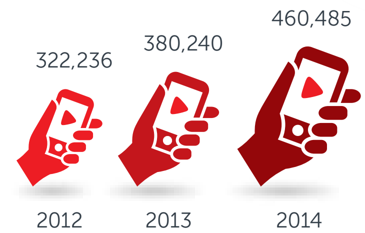
Although our impact as a financial services company on energy consumption is not material, we recognise the importance of measuring our impacts in order to more effectively manage them and proactively mitigate climate change.

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Total electricity consumption (kWh) | 39,477,277 | 38,975,068 | 32,640,246 |
| Impact change | | -1.27% | -16.25% |

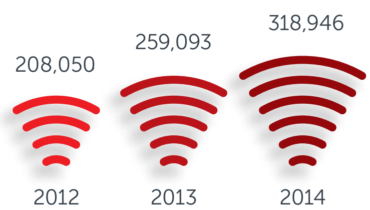
### Waste Management

At ADCB, we reduce and manage our waste through a variety of measures.

- Paper-recycling efforts were expanded in 2014.
- A full waste management programme was introduced at our Abu Dhabi offices in 2014, to recover paper, cardboard, plastics, cans and general waste.
- Paper savings achieved through e-statements were expanded in 2014 to transition corporate clients.
- E-waste recycling is undertaken as required.




460,485 SMS banking subscribers in 2014




318,946 Internet banking subscribers in 2014

97% of sourcing is from local suppliers

## Initiatives to Reduce Our Impacts

During 2014 we continued to install automated sensors in our head office, in order to save energy by switching lights off when the office is vacant. ADCB has also continued to encourage customers to bank through automated channels, such as mobile banking and Internet banking. The mobile banking channel consists of 460,485 subscribers for our SMS banking (launched 2006) and 108,536 subscribers for our smartphone app (launched 2012).

## Procurement and Sustainability

ADCB's environmental impact is affected by the purchasing decisions we make, through the impact of our suppliers and their products and services. Our practice is to support locally sourced products, which reduces distance transportation, safeguards social responsibility and human rights interests, and promotes local economic development. In 2013, our Procurement department introduced sustainability standards into our supplier-selection criteria, as a first step towards encouraging environmental and social responsibility amongst our supply chain. In 2014, the CIPS Middle East Awards recognised ADCB as a finalist for the "Best Contribution to Corporate Responsibility."

## Raising Awareness

Since 2012, ADCB has been a Platinum Corporate Sponsor of the Emirates Wildlife Society in association with the World Wildlife Fund (EWS-WWF), a non-profit organisation driving conservation of the natural environment in the UAE. In 2014, ADCB supported EWS-WWF through a number of different actions:

- ADCB participated in "Earth Hour" in unity with others around the world to take action against climate change by turning off the lights at its head office and many branches for one hour.
- We invited our customers to join us and participate in "Earth Hour."
- We sponsored the EWS-WWF Heroes of the UAE Private-Sector Awards ceremony and workshop, which recognised organisations that successfully reduced their carbon emissions by a minimum of 10% over 12 months.
- We invited experts to speak at internal training sessions to raise staff awareness on environmental issues.

# Corporate Governance Report

ADCB aspires to high standards of corporate governance. In recent years, the Bank has sought to enhance and improve its corporate governance standards and framework, emphasising transparency, integrity, accountability and fairness.

We believe high standards of corporate governance are a key contributor to the long-term success of a company, creating trust and engagement between the company and its stakeholders. Striving to deliver exemplary governance is a core aspect of the Bank's strategic intent. We have clear, well-understood governance policies, procedures and practices throughout the Bank. In this Corporate Governance Report, we outline some key aspects of the Bank's corporate governance framework, including the role and responsibilities of the Board and each of its Committees. We continue to review and develop this framework in light of changes in the Bank's businesses, best practices and the external environment.

## Reporting Principles

As part of the Bank's commitment to removing 'clutter' from its annual report, the Bank reports to the shareholders on corporate governance by publishing: (a) this report, which contains only information that is material and relevant, and which has changed since the most recent annual report; and (b) more detailed information, which is available on the Bank's website at *http://www.adcb.com/about/corpgovernance/overview.asp*.

Please visit our website for an overview of the Bank's governance framework and policies and practices, including the Bank's Corporate Governance Code, Directors and employees' Code of Conduct, disclosure standards, communication with shareholders, and investor relations.

## The Board

### The Board's Agenda in 2014

The Bank's Board has adopted a rolling agenda. The rolling agenda ensures that certain big-picture items, including long-term planning, strategy, operational plans, succession planning, performance

## A Better Way to Govern

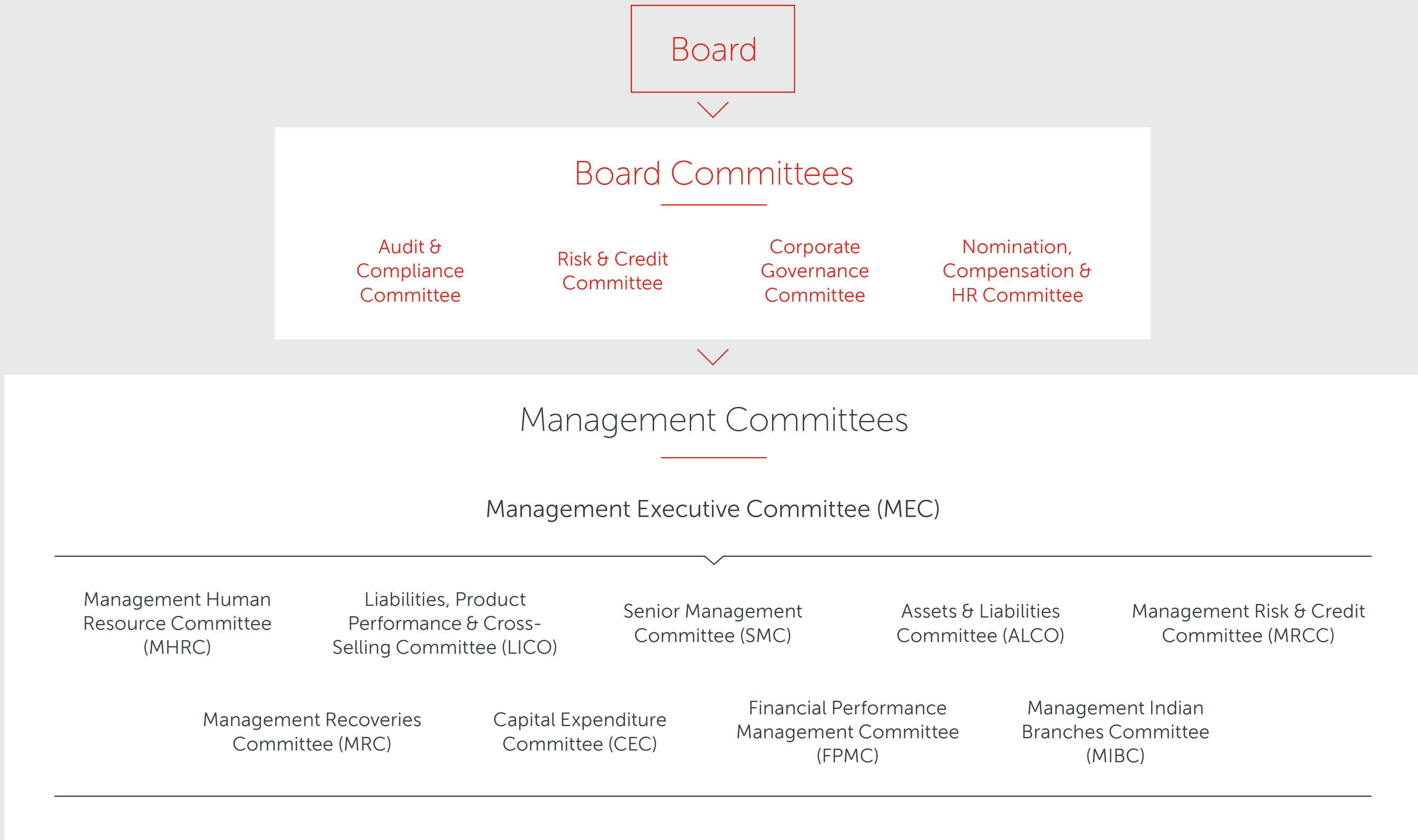
*External Recognition — Hawkamah Corporate Governance Award*

ADCB's ongoing achievements in corporate governance have resulted in the Bank being recognised as a regional leader in governance, winning several external awards in 2014, including "Best Corporate Governance in UAE" from *World Finance* magazine and, for the second time in three years, the Hawkamah Bank Corporate Governance Award.

Hawkamah, the Institute for Corporate Governance, promotes corporate-sector reform across the Middle East, North Africa and South Asia, assisting organisations and sectors in developing and implementing sustainable corporate governance strategies. Winners of the Hawkamah Bank Corporate Governance Award are selected following a rigorous interview and judging process, by a panel of independent judges consisting of leading global governance experts.

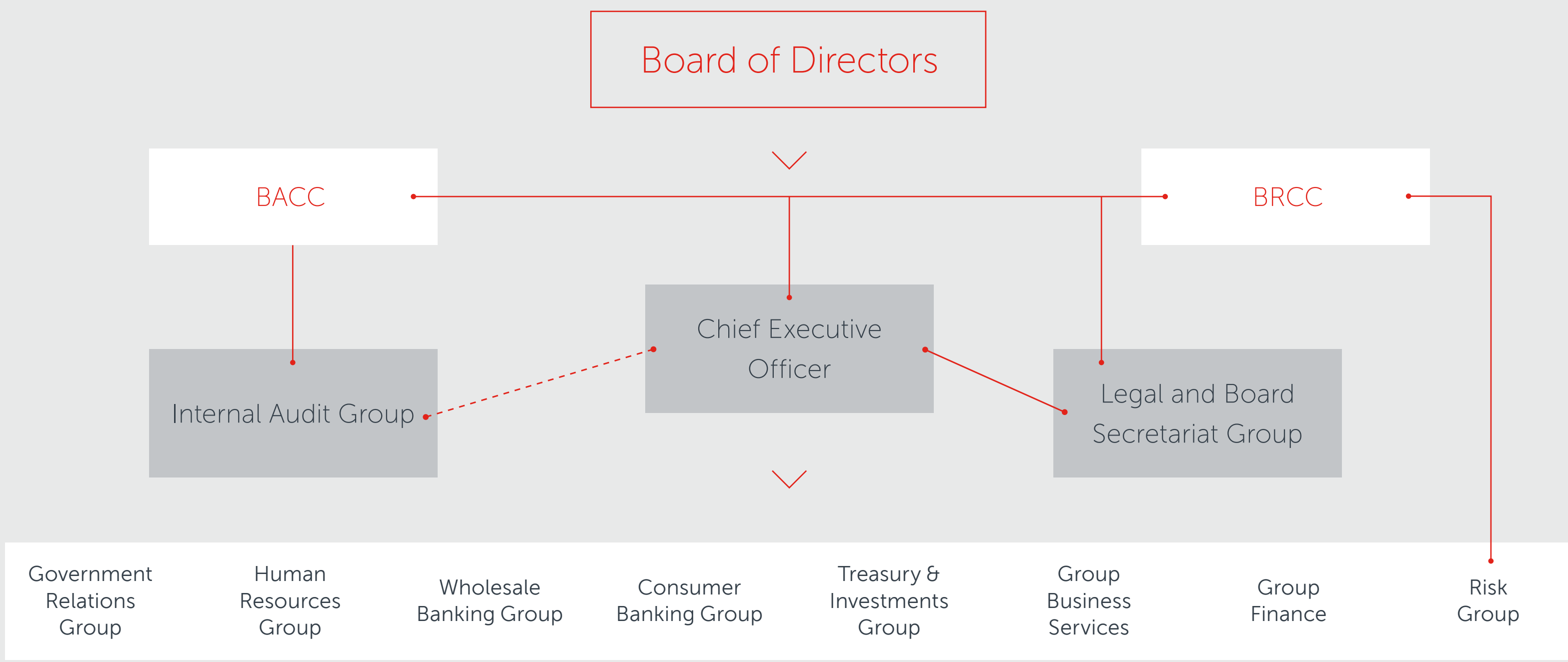

These awards were recognition of ADCB's achievements in corporate governance and affirmation of our commitment across all levels of the Bank, from the Chairman, Board Members and executive management to our entire staff. They reaffirm our position as a regional leader in governance, upholding the highest standards of transparency and accountability. In particular, these awards reflect well on our highly effective and engaged Board of Directors, our adherence to best practices in disclosure and transparency, our risk and remuneration governance, and our consideration of shareholders' rights.

## Corporate Governance Structure






## Structure and Composition



against budget and strategic targets, and human resources are discussed by the Board on a regular basis. This provides a structural framework for the Board's oversight.

In 2014, the Board focused on the following:

- defining and debating strategy;
- risk appetite;
- risk management, market trends and developments, new business opportunities, and the impact of regulatory developments;
- assessing each of the Bank's divisions and its performance against set targets that contribute to the achievement of the Bank's overall strategy; and
- improving governance structures and processes and maintaining a governance framework that adds value to the business.

Eight Board meetings were held in 2014. The Board also had an off-site strategy meeting to debate and refine the Bank's strategy. Senior management were invited to the Board and strategy meetings to further enhance the Board's engagement with the management and the business. Regular tours were made to various divisions and branches of the Bank to enhance the Board's engagement, awareness and contributions.

## Strategy Setting

The Board of Directors is responsible for determining the Bank's strategic direction. In 2014, the Board of Directors and the management team met to discuss and refine the Bank's strategy and objectives. In order to deliver against these objectives, management has developed a detailed set of strategic plans that operate across the Bank's businesses.

The Directors set the strategic direction of the Bank (with due consideration given to risk tolerance, shareholder expectations, business development opportunities and other macroeconomic factors), which senior management then uses to design the Bank's annual strategic plan and prepare the annual budget for Board approval. Thereafter, senior management provides regular updates to the Board of Directors to monitor progress against budget and strategy and permit any necessary modifications or adjustments in strategic direction.

*Please see further details in the Strategy section of this annual report on pages 36–37.*

## Board Oversight of Risk Management

Responsibility for setting our risk appetite and for the effective management of risk rests with the Board of Directors. Acting within an authority delegated by the Board, the Board Risk & Credit Committee (BRCC) has overall responsibility for oversight and review of all risk types — credit, market, operational, liquidity, fraud, reputational, etc.

The BRCC also guides management on risk appetite across sectors, geographies and customer types. It periodically reviews and monitors compliance with the Group's overall risk appetite and makes recommendations thereon to the Board.

Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, reviewing the outcome of stress tests and the Bank's stress-testing methodology, overseeing the Management Risk Committees and ensuring that the Bank's risk governance is supportive of prudent risk-taking at all levels in the Bank.

*Please see further details in the Risk Management section of this annual report on page 78.*

## Structure and Composition

The Bank's governance structure is headed by the Board, which has overall responsibility for guiding the Bank, including setting its strategy (including risk strategy). The Bank has a number of Board Committees and management committees which, together with their other responsibilities, oversee and monitor the day-to-day activities of the Bank. Further details about the committee structure are set out in the chart on page 63. At ADCB, we believe that good governance is fundamental to the successful achievement of our goals. Our reporting lines are also an important part of our governance structure, and they support good governance in the following way:

- The Chief Risk Officer is independent and reports to the Board Risk & Credit Committee;
- The Head of Internal Audit is independent and reports to the Board Audit & Compliance Committee; and
- The Board Secretary is independent and reports to the Board.

## Performance Evaluations

An effective Board is crucial to the success of the Bank. To assess the performance of the Board, the Board undergoes a rigorous performance evaluation annually. The Board recognises that board evaluations are an essential component of good governance. The Bank conducts an in-house Board evaluation every year, and in line with global standards, engages an independent external consultant to perform the evaluation every third year.

In 2012, the Bank engaged Professor Andrew Chambers, a leading governance expert, to perform an evaluation of the Board. The recommendations made by Prof. Chambers were described in the Bank's 2013 annual report and have been implemented. An evaluation exercise was conducted in-house in late 2013 and early 2014. Details of the process employed for the Bank's in house evaluations can be found in the Bank's Board Performance Evaluation policy (*http://www.adcb.com/about/corpgovernance/docfw/ppp.asp*). For the first time, the Bank's evaluation process conducted in late 2013 and 2014 included a Board Member self-evaluation process led by the Bank's Chairman. In addition, the Board's Adviser, Sir Gerry Grimstone, assisted with the process by

## Board Membership and Attendance

In addition to the below, during 2014 the Board appointed several short-term 'special committees' with responsibility and authority to consider certain subjects. In particular, special committees were appointed to consider the future strategy of the Bank's Indian branches and to formulate the Bank's share buyback strategy.

| Name | Status | Expiration of current term of office | Board | | Audit & Compliance Committee | | Corporate Governance Committee | | Risk & Credit Committee | | Nomination, Compensation & HR Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Meetings: 8 | | Meetings: 10 | | Meetings: 5 | | Meetings: 35 | | Meetings: 6 | |
| Eissa Mohamed Al Suwaidi | Director[1] | 2017 | C | 7 | | | | | C | 26 | M | 5 |
| Mohamed Sultan Ghannoum Al Hameli | Director[1] | 2016 | M | 7 | | | | | M | 24 | C | 6 |
| Ala'a Eraiqat | Director | N/A | M | 8 | | | | | | | | |
| Mohamed Darwish Al Khoori | Director[1] | 2017 | M | 7 | C | 10 | | | | | | |
| Khalid Deemas Al Suwaidi | Director | 2015 | M | 7 | | | M | 4 | | | | |
| Mohamed Ali Al Dhaheri | Director[1] | 2016 | M | 8 | | | C | 5 | | | M | 6 |
| Abdulla Khalil Al Mutawa | Director | 2015 | M | 7 | M | 9 | | | | | M | 6 |
| Sheikh Sultan bin Suroor Al Dhahiri | Director | 2015 | M | 5 | | | M | 4 | | | | |
| Omar Liaqat | Director[1] | 2017 | M | 8 | M | 8 | M | 5 | | | | |
| Aysha Al Hallami | Director[1] | 2016 | M | 7 | M | 9 | | | M | 32 | | |
| Khaled H Al Khoori | Director | 2015 | M | 7 | | | | | M | 29 | | |

*C Chairman   M Member   1 Elected by Abu Dhabi Investment Council*

## Performance Evaluations *(continued)*

meeting with various Board Members and members of management, and making various recommendations to improve Board engagement. Following conduct of the 2013/2014 evaluation, the Board Corporate Governance Committee agreed on various actions and improvements to the Bank's governance practices that were all implemented during 2014. These actions included the following:

1. Improvements to the risk-related materials presented to the Board;
2. Improvements to the Board training and skill-enhancement processes;
3. Enhancement to the Budget setting processes; and
4. Involvement of senior management members in the Board evaluation process.

## Appointment, Retirement and Re-Election

According to the Bank's articles of association:

- All Directors are required to seek re-election by shareholders every three years, and one-third of the Board must seek re-election on an annual basis.
- Abu Dhabi Investment Council has the right to elect such number of Directors as is proportionate to the percentage of the Bank's share capital that it holds (as at 31 December 2014, 58.08%).
- Details of the Board Members' current terms of office and, where relevant, their election by Abu Dhabi Investment Council, are set out in the table under 'Board Membership and Attendance' noted above.

*Please see further details at* http://www.adcb.com/about/corpgovernance/overview.asp.

## The Board's Adviser

The Bank has appointed Sir Gerry Grimstone as an independent Adviser to its Board of Directors. In 2014, Sir Gerry Grimstone attended five Board meetings, two Board Committee meetings (Nomination Compensation & HR Committee), and the Board strategy sessions. His background and lengthy experience enriches the Board's discussions and deliberations, most particularly in strategic discussions, Board reporting and effectiveness, assessment of the performance of senior management, assessment of risk appetite and rewards.

## Directors' Independence

The Bank considers that during 2014, the Bank's independent Directors represented more than one-third of the Board; and throughout 2014, the majority of Members of the Board Audit & Compliance Committee were independent.

*Please see further details, including the Bank's independence criteria, at* http://www.adcb.com/about/corpgovernance/overview.asp.

## Induction and Professional Development

In 2014, no new Directors were appointed to the Board. In the event that any new Directors are appointed, they are given formal induction and orientation regarding financial matters and business operations. In addition, the management will facilitate their visits to the Bank's departments and key branches to get familiar with the Bank's operations. The management would also organise a series of induction meetings with key executive management members. Please see *http://www.adcb.com/about/corpgovernance/overview.asp* for additional information concerning the Bank's induction programme for newly appointed Directors.

### Matters Reserved to the Board and Information Dissemination

*Please see details at* http://www.adcb.com/about/corpgovernance/overview.asp.

### Meetings

In 2014, the Board of Directors met regularly, and Directors received information between meetings about the activities of Board and management committees, and developments in the Bank's business. There were eight Board meetings and 56 Board Committee meetings in 2014. The table on page 65 gives details of each Director's attendance at meetings of the Board and Board Committees in 2014.

### Board Committees

The memberships and chairmanships of the Board Committees are reviewed on a regular basis to ensure suitability and compliance with other requirements, and rotated as needed. No changes were made to the Committee Membership in 2014.

## Other Practices and Policies

### Conflicts of Interest

Details of all transactions in which a Director and/or other related parties might have potential interests are provided to the Board for its review and approval. Where a Director is interested, the interested Director neither participates in the discussions nor votes on such matters. The Bank's policy is to, so far as possible, engage in transactions with related parties (including Directors) only on arm's-length terms.

The Board Secretariat maintains a conflicts register that is regularly reviewed by the Board Corporate Governance Committee.

As at 31 December 2014, as a result of written declarations submitted by each of the Board Members, the Board was satisfied that the other commitments of the Directors do not conflict with their duties, or that, where conflicts may arise, the Board is sufficiently aware and appropriate policies are in place to minimise the risks.

### Management Committees

The management has established the following management committees:

| Committee name | # of meetings held in 2014 | Responsibilities of the committee |
|---|---|---|
| Management Executive (MEC) | 39 MEC meetings and 6 Strategic MEC meetings. | Most senior management committee, which provides oversight of all of the Bank's businesses and operations. |
| Senior Management (SMC) | 8 | Administration, governance, change management, strategy, and project updates and dissemination of information. Pre-screening of certain matters before MEC review. |
| Assets & Liabilities (ALCO) | 7 | To make investments and execute asset/liability transactions within delegated limits and to guide MEC and the Board on other investments and asset/liability transactions above those limits. |
| Management Risk & Credit (MRCC) | 57 (52 regular MRCCs and 5 Strategic MRCCs) | To approve credits within delegated limits, to consider risk appetite and strategy issues, and to set and recommend risk policies; to guide the MEC, Board Risk & Credit Committee and the Board on credits above those limits and on general risk and risk policy issues. |
| Management Recoveries (MRC) | 5 | To approve recoveries within delegated limits and to guide MEC and the Board on recoveries above those limits. |
| Capital Expenditure (CEC) | 8 | To review and approve project capital expenditure within delegated limits, and accordingly guide and advise the MEC and Board on project capital expenditure. |
| Liabilities, Product Performance & Cross-Selling (LICO) | 11 | To tactically strategise the liabilities initiatives of the Bank at the Businesses/product levels with ongoing monitoring of achievements of different product groups. The Committee is also responsible for cross-selling initiatives, monitoring product performance and approving pricing and marketing of products with the theme of having a focussed approach to the market on initiating liabilities. |
| Management HR (MHRC) | 6 | To act as a forum for prior screening, discussion and recommendation of all human resources–related matters that ultimately appear before the MEC. |
| Financial Performance Management (FPMC) | 7 | To monitor financial performance of the Bank's business lines. |
| Management Indian Branches (MIBC)* | 3 | To support the MEC in its responsibility to oversee and manage the Bank's branches in India.<br>*The Committee was formed in September 2014. |

## Dividend Policy

The Bank has not adopted a formal dividend policy.

## Internal Controls

In 2014, the Board of Directors, through the Board Audit & Compliance Committee, conducted a review of the effectiveness of the Bank's systems of internal control covering all material controls, including financial, operational and compliance controls, and risk-management systems. The Board Audit & Compliance Committee has received confirmation from the Bank's Internal Audit Group that the Bank's internal controls have been assessed to be effective and operating as designed, and that management has taken or is taking the necessary action to remedy any failings or weaknesses identified.

*Please see details at* http://www.adcb.com/about/corpgovernance/overview.asp.

## Audit Arrangements

The external auditors were initially appointed at the 2011 Annual General Meeting (AGM); at the 2012 and 2013 Annual General Assembly, PricewaterhouseCoopers (PwC) were re-appointed as the external auditors of the Bank on the recommendation of the Board of Directors. Bank policy restricts the firm's tenure to no more than seven consecutive years. Bank policy also restricts the tenure of the individual audit partner within the firm to no more than five consecutive years, unless exceptionally approved by the Board Audit & Compliance Committee[1]. The Bank's external auditor is paid on a fixed annual fee basis, as approved by the shareholders at the AGM. In 2014, fees paid to external auditors for audit work conducted during the 2014 year totalled AED 1,496,080 for the audit of the Bank's UAE business and its subsidiaries.

A further AED 815,837 was paid to PwC for non-audit work primarily related to certification work undertaken in relation to the Bank's capital market issuances. All non-audit work performed by PwC was pre-approved by the Board's Audit & Compliance Committee.

## Internal Audits, Regulation and Supervision

*Please see details at* http://www.adcb.com/about/corpgovernance/overview.asp.

## The Bank's Approach to Disclosure

The Bank is committed to high standards of transparency and continues to work on enhancing its disclosures annually to remain in line with local and international best practice. In this year's annual report, we have focussed on giving readers a clearer picture of our performance, business model and strategy. In addition, we have remodelled our risk disclosures based on recommendations from the Enhanced Disclosure Task Force (EDTF) and enhanced our remuneration disclosures.

We believe that the Bank continues to be one of the most transparent institutions in the region. Relevant financial and non-financial information is communicated to shareholders, customers, regulators, employees and other stakeholders in a timely manner through this annual report, our quarterly market updates, our press releases, the Bank's website, via Abu Dhabi Securities Market (ADX) and in various other ways. We also take internal communications extremely seriously, and staff are kept aware of all new developments, including the Bank's strategic direction, objectives, ethics, risk policies, general policies and procedures, new regulations and other relevant information via numerous internal channels.

ADCB communicates with shareholders through this annual report, through its quarterly market updates, through press releases and by providing information at the Annual General Assembly Meeting. The Bank has an Investor Relations department whose role is to ensure strong communication with the Bank's investors.

## Diversity

During 2013, Aysha Al Hallami was appointed as a Director. Aysha Al Hallami is the first woman to be appointed to the Bank's Board of Directors. This is in line with international trends and the Bank's efforts to promote greater diversity at the Board level, and it also corresponds with the Government's efforts to empower Emirati women.

The Bank's Board is aware of the advantages of all types of diversity. A diverse Board is likely to make better decisions.

## Articles of Association

The Bank's articles of association are available on the Bank's website at *www.adcb.com/about/corpgovernance*.



1. In September 2014, Abu Dhabi Accountability Authority (ADAA) established new Statutory Auditors Appointment Rules requiring that external audit services are tendered and rotated every four years.

## Reports of the Board Committee Chairmen

01

### Audit & Compliance Committee

*Composition as at 31 December 2014:*
Mohamed Darwish Al Khoori (Chairman), Aysha Al Hallami, Abdulla Khalil Al Mutawa, Omar Liaqat
*Secretary:* Rami Raslan

## Statement from the Chairman of the Audit & Compliance Committee

Dear Shareholders,

During 2014, the Audit & Compliance Committee continued focusing on integrity and transparency of the Bank's financial statements, the effectiveness of the Bank's internal audit activities, Internal Controls and Compliance functions, and reviewed the work carried out by the Bank's statutory auditors, PricewaterhouseCoopers.

The Committee held nine meetings in 2014 during which the Committee discussed, reviewed and worked on the following matters:

- overseeing and continuously assessing the effectiveness of the financial reporting and disclosure process;
- monitoring the choice of accounting policies, principles and judgements;
- overseeing regulatory compliance and the activities of the Bank's Compliance function;
- overseeing and continuously assessing the effectiveness of the external audit process;
- monitoring internal controls;
- approving the annual audit plan;
- discussing the annual audited financial statements with management and the external auditor, and, in particular, considering the appropriateness of the Bank's specific and general provisions;
- overseeing the performance and activities of the Internal Audit function. This included reviews of the Internal Audit function's performance, budgeting, staffing and training activities;
- reviewing audit issues raised by the internal and external auditors, as well as the Central Bank, Abu Dhabi Accountability Authority and other regulators, and management's responses;
- evaluating the external auditor's qualifications, performance and independence. This included oversight of all non-audit activities of the external auditors and review of the scope of work proposed by the external auditors for the year;
- review of the Committee's terms of reference and other policies sponsored by the Committee (including the Bank's audit rotation policy);
- discussing risk management policies and practices with management;
- arranging an external review and quality assurance on the activities of the internal auditor and reviewing the results; and
- reporting regularly to the Bank's Board of Directors.

The Committee regularly met separately with the external auditors and internal auditors in the absence of the Bank's management. In addition, the Committee members attended joint meetings with the members of the Risk & Credit Committee to discuss risk-related issues.

The Board approved the 2014 annual accounts at the Committee's recommendation based on the external auditors' report and the Committee's view that, as a whole, the accounts accurately reflected the Bank's performance in 2014 and that they were fair, balanced, and provided the information required by shareholders to assess the Bank's performance. The Committee considered, amongst other things, the correct approach to provision for key restructured accounts.

The Board Audit & Compliance Committee has received confirmation from the management that the Bank's internal controls have been assessed to be effective and are operating as designed, and the Committee is confident that the management has taken or is taking the necessary action to remedy any failings or weaknesses identified.

In 2014, the Board Audit & Compliance Committee commissioned an independent Quality Assurance Review of the Bank's Internal Audit Group (IAG). A report by KPMG concluded the following: "we noted that the ADCB IAG has consistently adopted highly effective internal audit practices to deliver on its mandate. Such internal audit practices meet current professional standards and are superior to generally accepted industry practices in the Financial Services sector in the region. We reviewed Internal Audit's conformance with The Institute of Internal Auditors' (IIA's) 18 Attribute and 33 Performance International Standards and there were no instances of non-conformances to the IIA International Attribute and Performance Standards."

The Committee considers that it made positive progress during 2014 towards meeting its responsibilities.

### Looking at 2015

Late in 2014, the Committee approved its schedule for 2015. The 2015 schedule envisages continued focus on the activities of the Internal Audit and Compliance functions and ensuring the adequacy of the Bank's internal controls and compliance activities. The Bank will tender for its external audit early in 2015, and the Committee will oversee this process. The Committee intends to deepen the coordination of its activities with those of the Board Risk & Credit Committee.

**Mohamed Darwish Al Khoori**
*Chairman of the Board's Audit & Compliance Committee*

## 02 Corporate Governance Committee

*Composition as at 31 December 2014:*
Mohamed Ali Al Dhaheri (Chairman), Sheikh Sultan bin Suroor Al Dhahiri, Khalid Deemas Al Suwaidi and Omar Liaqat
*Secretary:* Rami Raslan

### Statement from the Chairman of the Corporate Governance Committee

Dear Shareholders,

During 2014, the Corporate Governance Committee continued to oversee the development of the Bank's governance policies. In particular, the Committee engaged the Bank's divisions to assess their development of certain key governance themes, and oversaw the Board evaluation and implementation of policy adjustments arising from that evaluation.

The Corporate Governance Committee monitors local and international best practices regularly, and reviews and makes recommendations to the Board to enhance the Bank's governance practices in order to achieve high standards of corporate governance.

The Committee adopted a rolling agenda for 2014 that focused on, amongst other things, ethics & compliance; bribery & fraud; strategy governance; risk governance; IT governance; sustainability & corporate social responsibility; and procurement governance.

The Committee held five meetings over the course of 2014. Amongst other things, in 2014 the Corporate Governance Committee worked on the following matters:

- reviewing the results of the 2013 Board evaluation and the adoption and monitoring of the action plan arising from it;
- reviewing and recommending amendments to Board and management committees' terms of reference;
- reviewing and recommending amendments to the Bank's governance policies;
- engaging the Bank's divisions and various businesses in its governance framework and providing guidance on enhancing governance practices;
- Directors' professional development programmes;
- ongoing review of international developments in corporate governance and assessment of Bank practices;
- considering corporate governance sponsorships;
- publication of corporate governance information;
- making recommendations to the Board and Board Committees on governance matters; and
- considering internal Bank initiatives to further embed corporate governance within the organisation.

The Corporate Governance Committee plays an advisory role, reporting its recommendations to the Board for final approval. The Committee considers that the Bank has developed a robust governance framework, appropriate for the size and status of the Bank. However, there remain areas for improvement.

The Board's Corporate Governance Committee has developed an agenda to further embed the governance culture across the Bank. Group heads of various functions of the Bank are invited regularly to update the Committee on their governance initiatives. Each group head is required to present on achievements, present status and intended courses of action with regards to governance conduct of such functions.

The Committee considers that positive progress was made during 2014 in the implementation of the Bank's corporate governance initiatives. The Bank's ongoing achievements in corporate governance resulted in the Bank receiving the "Corporate Governance Award — UAE" from *World Finance* magazine in 2014. The Bank also received the Hawkamah Bank Corporate Governance Award. Hawkamah is a regional initiative aimed at recognising, supporting and encouraging superior governance practices in the banking sector in the Middle East, North Africa and South Asia. The award reaffirms our position as a regional leader in governance practices. This is due to commitment across all levels of the Bank, including the Chairman, Board Members, CEO, senior management and staff.

### Looking at 2015

The Committee's agenda for 2015 reflects its ongoing commitment to governance across the Bank through a series of deep-focus sessions into governance matters, including, amongst other things, subsidiary governance, enhancing disclosures, applying Basel guidelines on corporate governance for banks (currently in draft form), complaint-handling processes, and products and services governance. The Bank intends to raise governance awareness across various levels of its staff by rolling out e-learning modules.

**Mohamed Ali Al Dhaheri**
*Chairman of the Board's Corporate Governance Committee*

## Reports of the Board Committee Chairmen

03

### Nomination, Compensation & HR Committee

*Composition as at 31 December 2014:*
Mohamed Sultan Ghannoum Al Hameli (Chairman), Eissa Mohamed Al Suwaidi, Abdulla Khalil Al Mutawa, Mohamed Ali Al Dhaheri
*Joint Secretaries:* Ali Darwish, Rami Raslan

### Statement from the Chairman of the Nomination, Compensation & HR Committee

Dear Shareholders,

During 2014, the Nomination, Compensation & HR Committee focussed on the Bank's HR reporting, Emiratisation, remuneration framework, and Board skills and composition.

The Nomination, Compensation & HR Committee met six times during 2014 and considered the following:

- the Board's composition, including nomination and appointment of Directors, review of the Board election process and a review of Directors' independence;
- benchmarking of Directors' remuneration and fees;
- CEO performance evaluation and remuneration;
- Bank's remuneration framework for senior management members, including:
  - fixed and variable remuneration, including external benchmarking,
  - review of variable pay effectiveness and risk review,
  - public reporting on the Bank's remuneration practices, and
  - retention schemes;
- succession planning;
- UAE nationalisation strategies, including case studies and the Bank's landmark Tamooha project;
- Ambition University — learning and development aligned with business strategy;
- HR reporting, policies and practices; and
- the contributions of the Board Adviser.

A key focus area in 2014 was the Bank's Emiratisation strategy. The Committee reviewed the Bank's highly successful Tamooha initiative and plans to extend that initiative by establishing further Tamooha centres. Further details of the Tamooha initiative (including awards received) are set out on pages 32–33 of this report. In addition, the Committee received presentations on the activities of the Emiratisation Committee, as well as case studies and discussions with young high-performing UAE national staff members.

The Committee focussed on improving the quality of reporting on HR issues, with the aim of assisting the Committee in carrying out its responsibility in relation to governance of HR matters.

In 2014, for the first time, the Committee reviewed the effectiveness of the Bank's remuneration framework. This process will be further enhanced in 2015. The Committee approved the introduction of a retention scheme, with the primary aim of retaining talented staff, predominantly UAE nationals, over the long term. The Committee considers that the Bank's remuneration policies remain appropriate for the Bank's current size and status, and that its remuneration governance adheres to global best practices. In particular, the Committee considers that the remuneration framework has been effective in attracting and retaining talent and is likely to continue to be effective.

The Committee considers that it made positive progress during 2014 towards meeting its responsibilities.

### Looking at 2015

In 2015, the Committee shall continue to fulfil its governance responsibilities. Amongst other things, it will continue to focus on the Bank's Emiratisation strategy, the design and effectiveness of the Bank's remuneration schemes, and HR policies and activities.

**Mohamed Sultan Ghannoum Al Hameli**
*Chairman of the Board's Nomination, Compensation & HR Committee*

## 04 Risk & Credit Committee

*Composition as at 31 December 2014:*

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

*Secretary:* Rami Raslan

## Statement from the Chairman of the Risk & Credit Committee

Dear Shareholders,

During 2014 the Committee continued to refocus away from credit decision making and towards risk strategy, risk appetite and risk analysis. In particular, the Committee reviewed the structure of risk reports, considered credit concentration, asset quality, and the Bank's performance against its risk appetite, and reviewed risk-related policies, procedures and tolerances. The Committee continued to play a role in considering high-level credit decisions, but (a) the Committee approved increased delegated limits to management with the aim of further reducing its role in credit decisioning in 2015, and (b) the Committee recognises that, in view of the nature of the local market, as well as certain regulatory requirements, the Board and, in particular, the Committee will need to retain some involvement with credit decisions on an ongoing basis.

The Committee held 35 meetings in 2014. The Committee:

- reviewed risks in the Bank's asset portfolios;
- considered various risk policies, including policies relating to share lending, Islamic lending, real estate lending, mortgages, master risk-participation agreements, margin trading, leveraged investments, fraud risk, and market risks;
- considered the Bank's operational risks and operational risk reporting;
- considered the outcome of stress tests conducted on various key portfolios;
- examined the actual risks and the control deficiencies in the Bank;
- analysed the formulas, inputs and assumptions used for various risk metrics including 'probability of default';
- considered the Bank's limits and tolerances in various areas, such as concentrations, sectors, countries, foreign exchange and derivative transactions;
- assisted the Board to define the risk appetite and risk strategy of the Bank and monitored the independence and effectiveness of risk management functions throughout the Bank;
- considered the Bank's appetite for risk in various areas, such as GREs in Dubai, Abu Dhabi and the region;
- ensured the adequacy of infrastructure, resources and systems to maintain a satisfactory level of risk management discipline;
- considered the Bank's capital adequacy assessment process, including its ICAAP methodology;
- monitored the independence of risk management functions throughout the Bank; and
- considered its agenda for 2015.

In 2014, the Committee held three meetings focused exclusively on risk strategy. The Committee held another four meetings that comprised both credit decisions and discussion of risk appetite, strategy and policy issues.

The Committee considers that it made positive progress during 2014 towards meeting its responsibilities.

### Looking at 2015

The Committee's schedule in 2015 contemplates a continuing shift away from credit decision making towards a focus on risk strategy, appetite and analysis. The 2015 schedule contemplates 10 meetings focused exclusively on risk strategy and policy issues. As noted above, the Committee contemplates that it will remain involved in credit decision making to an extent, and that this will continue on an ongoing basis. However, the primary focus in 2015 will be on oversight of the Bank's risk governance framework, risk appetite and strategy and review of the Bank's risk policies and practices .

**Eissa Mohamed Al Suwaidi**
*Chairman of the Board's*
*Risk & Credit Committee*

## Directors' Shareholdings as at 31 December 2014

| | Shareholding in ADCB | | |
|---|---|---|---|
| | As at 31 December 2013 | As at 31 December 2014 | Change in shareholding |
| Abdulla Khalil Al Mutawa | 2,347,277 | 2,347,277 | 0 |
| Ala'a Eraiqat* | 2,200,000 | 2,391,877 | 191,877 |
| Aysha Al Hallami | 0 | 0 | 0 |
| Eissa Mohamed Al Suwaidi | 0 | 0 | 0 |
| Khalid Deemas Al Suwaidi | 0 | 0 | 0 |
| Khaled H Al Khoori | 190,000 | 0 | -190,000 |
| Mohamed Ali Al Dhaheri | 0 | 0 | 0 |
| Mohamed Darwish Al Khoori | 837,325 | 91,892 | -745,433 |
| Mohamed Sultan Ghannoum Al Hameli | 0 | 0 | 0 |
| Omar Liaqat | 0 | 0 | 0 |
| Sheikh Sultan bin Suroor Al Dhahiri | 2,835,147 | 2,835,147 | 0 |

**Excluding 542,197 unvested restricted units in the Bank's LTIP scheme of which (1) 241,556 will vest on 31 December 2015 subject to early vesting, and (2) 300,641 will vest on 31 December 2016 subject to early vesting.*

## Board Committees' Fees

| | Nomination, Compensation & HR Committee | | Board Risk & Credit Committee | | Audit & Compliance Committee | | Corporate Governance Committee | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Members** | Sessions attended | Amount (AED) | Sessions attended | Amount (AED) | Sessions attended | Amount (AED) | Sessions attended | Amount (AED) | Board Committee meeting fees (2014, AED) | Board Member remuneration (AED, paid in 2014 for the year 2013) | Total (AED) |
| Eissa Mohamed Al Suwaidi | 5 | 20,000 | 26 | 130,000 | | | | | 150,000 | 1,000,000 | 1,150,000 |
| Mohamed Sultan Ghannoum Al Hameli | 6 | 30,000 | 24 | 96,000 | | | | | 126,000 | 750,000 | 876,000 |
| Khaled H Al Khoori | | | 29 | 116,000 | | | | | 124,000[1] | 600,000 | 724,000 |
| Mohamed Darwish Al Khoori | | | | | 10 | 75,000 | | | 75,000 | 600,000 | 675,000 |
| Abdulla Khalil Al Mutawa | 6 | 24,000 | | | 9 | 54,000 | | | 78,000 | 600,000 | 678,000 |
| Mohamed Ali Al Dhaheri | 6 | 24,000 | | | | | 5 | 25,000 | 49,000 | 600,000 | 649,000 |
| Sheikh Sultan bin Suroor Al Dhahiri | | | | | | | 4 | 16,000 | 16,000 | 600,000 | 616,000 |
| Khalid Deemas Al Suwaidi | | | | | | | 4 | 16,000 | 16,000 | 600,000 | 616,000 |
| Aysha Al Hallami | | | 32 | 128,000 | 9 | 54,000 | | | 190,000[1] | 450,000 | 640,000 |
| Omar Liaqat | | | | | 8 | 48,000 | 5 | 20,000 | 78,000[1] | 450,000 | 528,000 |
| Total | | 98,000 | | 470,000 | | 231,000 | | 77,000 | 902,000[1] | 6,550,000[2] | 7,452,000 |

*1. In 2013, the Board formed a special committee to consider the future strategy of the Bank's Indian branches, and its members were paid fees of AED 26,000 in 2014 (Khaled H Al Khoori AED 8,000, Aysha Al Hallami AED 8,000 and Omar Liaqat AED 10,000).*

*2. Total includes the fees of the Board members who retired in 2013: Jean Paul Villain (AED 150,000) and Salem Mohamed Al Ameri (AED 150,000).*

*Note: Ala'a Eraiqat (Board Member and Chief Executive Officer) has waived his right to receive Board fees.*

## Remuneration policy

Directors' remuneration is set annually by the Board following delegation by the Bank's shareholders. Any proposals for changes are considered by the Nomination, Compensation & HR Committee prior to obtaining Board and, if necessary, shareholder approvals. According to federal laws and the Bank's articles of association, Directors may not receive any remuneration in respect of a year when the Bank does not achieve net profits.

*Please see further details at* http://www.adcb.com/about/corpgovernance/overview.asp.

## Board Remuneration

### Board Member remuneration paid during 2014

| | Director fees (AED per annum)* |
|---|---|
| Chairman of Board | 1,000,000 |
| Vice-Chairman | 750,000 |
| Director | 600,000 |

### Board Committee meeting fees paid for attendance in 2014 (per meeting)

| | Fees for attendance at Board Committee meetings (other than Audit & Compliance Committee) | Fees for attendance at Audit & Compliance Committee meetings |
|---|---|---|
| Committee Chairman | AED 5,000 | AED 7,500 |
| Committee Member | AED 4,000 | AED 6,000 |

### Other benefits

As at 31 December 2014, the Bank's Directors were not eligible for any bonus, long-term or other incentive schemes. Directors do not receive any pension benefits from the Bank.

*Please see further details at* http://www.adcb.com/about/corpgovernance/overview.asp.

## Remuneration & Reward at ADCB

### Guiding Principles

In line with ADCB's commitment to sound governance and promotion of long-term sustainable shareholder value, ADCB's objective is to provide transparency to shareholders and other stakeholders about its remuneration principles and incentives.

- ADCB supports levels of remuneration necessary to attract, retain and motivate employees of the calibre necessary to lead, manage and deliver in a competitive environment. However, ADCB seeks to avoid paying more than necessary for this purpose and has practices and policies in place that promote effective risk management.
- ADCB seeks to ensure that remuneration packages reflect duties and responsibilities, are fair and equitable, and incorporate clear and measurable rewards linked to corporate and individual performance. Rewards will be based only on the results of a rigorous appraisal process.
- As far as possible, bearing in mind market trends and constraints, remuneration shall align the interests of ADCB's employees with the interests of shareholders and other stakeholders, and shall blend short- and long-term incentives. Performance-related elements shall be designed to minimise employee turnover and to give employees incentives to perform at the highest levels, whilst recognising the need to promote effective risk management.

## Total Reward — Key Components

An employee's rewards at ADCB are made up of:

| | | |
|---|---|---|
| **Fixed Pay**<br>This part of pay is fixed and based on the market rate for each role. It is influenced by each individual's contribution over the year, and any fixed-pay reviews will depend on the achievement of an employee's objectives and overall performance level. | **Components:**<br>***Base Salary***<br>***Allowances***<br>• social allowance (UAE nationals)<br>• job-specific allowances (such as a teller allowance, remote-area allowance or shift allowance)<br>• grade-based allowances (such as an education allowance)<br>***Benefits*** such as:<br>• leave fare<br>• private medical insurance<br>• life insurance coverage<br>• annual leave | **2014 Key Management Fixed Pay**<br>In 2014, Key Management (defined as CEO and his direct reports) received fixed pay, which included basic salary and other allowances (excluding cash and deferred variable pay awards as detailed below) amounting to AED 28.7 mn. |
| **Variable Pay**<br>Employees may receive variable pay in addition to fixed pay. It is based on each individual's performance over the year. Variable pay is not always payable, and the amount received may change from year to year. | **Performance Criteria**<br>Although individual award amounts are dependent on individual performance, variable pay is also aligned to the business function's performance as well as the Bank's overall performance.<br>• Individual performance<br>• Business function performance<br>• Bank's overall performance | **2013/14 Variable Pay Awards**<br>For performance in 2013, the following awards were made to employees in 2014:<br>• Cash variable pay awards of AED 138.5 mn<br>• Deferred compensation plan awards of AED 50.2 mn<br>• Of the above, AED 30.5 mn was allocated to Key Management in cash and AED 25.4 mn in deferred compensation |
| **Retention Scheme *(New for 2014)***<br>In 2014, ADCB introduced a share-based Retention Scheme for incumbents in key positions deemed as 'mission critical' and for UAE nationals deemed to have exceptional growth potential. The Retention Scheme is independent of variable pay awards, with the key driver to ensure business continuity by mitigating turnover risk and, in turn, operational risk. Invitations to join the Retention Scheme are at the sole discretion of the NCHR Committee, and members of the Management Executive Committee are excluded from participating. Retention Scheme awards vest after four years' service. | **Performance Criteria**<br>• Incumbents in 'mission critical' positions<br>• UAE nationals with exceptional growth potential | **2014 Retention Awards**<br>Awards were made to 47 employees, of whom 70% were UAE nationals, and 1,665,000 shares were awarded at a value of AED 10.8 mn. |

## ADCB's Bank-Wide Variable Pay Framework

In 2012, the Bank completed an extensive review of its variable pay (VP) practices, which it had commenced in 2011, and implemented several key changes aimed at improving remuneration governance and alignment with global best practices. These practices continue to evolve as the Bank reviews and enhances its policies and practices to ensure ongoing alignment with international regulations and, in particular, those associated with a robust decision-making process in all remuneration matters based on performance measurement and risk adjustment.

## ADCB's Variable Pay Framework & Governance — Key Facts

| | |
|---|---|
| Aligns individual, business function's and Bank-wide performance | *Yes* |
| Differentiates between different functions of the Bank to ensure alignment to the relevant market | *Yes* |
| Includes a deferred compensation plan | *Yes* |
| Currency of deferred compensation | *Cash & Shares* |
| Duration of deferred compensation plan | *3 years* |
| Awards subject to thresholds, caps, clawback rules, malus clause, and deferral and retention provisions | *Yes* |
| Employs remuneration professionals experienced in the governance of all types of compensation and benefits | *Yes* |
| Designed in conjunction with, and reviewed by, independent external advisors reporting directly to the Nomination, Compensation & HR Committee | *Yes* |

| | |
|---|---|
| Conducts regular external benchmarking to ensure alignment with evolving global best practices | *Yes* |
| Constantly monitors the developments in remuneration governance and revises practices to ensure all VP plans evolve in line with the Bank's needs and external developments | *Yes* |
| Designed to avoid excessive risk-taking | *Yes* |
| Active involvement of Risk in the review of VP plans | *Yes* |
| Minimum Shareholding Rule for Key Management | *Yes* |
| Aligns employees with the long-term performance of the Bank | *Yes* |
| The NCHR Committee oversees the allocation of variable pay awards and retention awards, including (a) overall amounts, (b) distribution between business groups, (c) actual awards to the Bank's senior management (including senior material risk-takers and senior members of the Bank's control functions). | *Yes* |
| The Bank's Finance & Risk groups are involved in setting and reviewing the criteria used for performance measurement and risk adjustment for awards to key revenue-generating functions. Formula-based awards are based on adjusted revenues and may be adjusted based on risk assessments as well as source and quality/ sustainability of revenues generated. | *Yes* |

## Islamic Banking Governance

The Islamic Banking business at Abu Dhabi Commercial Bank PJSC (ADCB) is managed under the ADCB Islamic Banking (ADCB IB) brand, offering shari'ah-compliant financial solutions to Consumer Banking, Wholesale Banking and Treasury clients. It is an independently managed business comprising the Islamic Banking department (IBD), a business unit of ADCB, and Abu Dhabi Commercial Islamic Finance PJSC (ADCIF), a wholly owned subsidiary of ADCB.

ADCB IB and ADCIF are regulated by the Central Bank of the UAE and supervised by an independent Fatwa & Shari'ah Supervisory Board (FSSB). Shari'ah governance is carried out under the guidance of a three-member FSSB, which operates in accordance with the Islamic Financial Services Board (IFSB) standards and guidelines as laid out by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI).

An independent Shari'ah Board approves all ADCB Islamic Banking products and services. No funds pertaining to ADCB Islamic Banking will be invested in non-shari'ah-compliant assets or obtained from any non-shari'ah-compliant sources. The following Shari'ah scholars are three of the most distinguished scholars in the Islamic finance industry and members of the FSSB:

**Dr. Hussain Hamed Hassan — Chairman of the Board**
Dr. Hassan holds a Ph.D. in the faculty of Shari'ah from Al Azhar University, Cairo, Egypt. He also chairs the Shari'ah Supervisory Board for 13 other Islamic financial institutions.

**Dr. Mohamed Zoeir — Member of the Board**
With a Ph.D. in Islamic Economy, Dr. Zoeir is a member of the Shari'ah Supervisory Board of many Islamic banks across the Middle East and Africa.

**Dr. Muhammad Qaseem — Member of the Board**
Dr. Qaseem is an influential Islamic scholar and Chairman of the Shari'ah Supervisory Board of Dubai Islamic Bank in Pakistan.

Through a retainer agreement, Dar Al Shari'ah Financial Consultancy Company provides day-to-day support and assistance on shari'ah-related matters and coordinates between ADCB IB and FSSB. Furthermore, in 2014 the Bank appointed its own in-house Shari'ah expert. Fatwas (edicts) are issued by the FSSB for all products and services as well as bespoke structured deals to certify compliance with principles of Shari'ah. This includes approving the product structure including the underlying Islamic contract, legal documentation, operational process flow and all associated product literature. The product Fatwas issued by the FSSB are published on the Bank's website and displayed at the Bank's branches.

ADCB IB maintains a separate set of general ledgers to ensure that the books of accounts for the Islamic business are accounted for separately and there is no mingling of Islamic funds with conventional funds. The Bank's consolidated accounts include the results of ADCB IB and ADCIF and are separately disclosed in the notes.

# Risk Management

## Risk Performance Overview 2014

At ADCB, we are actively scanning macroeconomic conditions and readjusting policies and focus areas to ensure our portfolio remains robust. 2014 was a mixed year in terms of the economic climate — a buoyant beginning with the last six months characterised by several global challenges that will have an impact on business in the UAE in 2015. Global tension due to territorial disputes between Russia and Ukraine, China and Southeast Asia, and Syria and its neighbours has led to various concerted actions by the United Nations. The most significant of these tensions are the embargo of Russian financial institutions and its fuel exports, the war on extremists in the Middle East, the fall in oil prices, and the movement on the Abu Dhabi and Dubai stock exchanges.

We continue to upgrade our risk-management capabilities through expanded portfolio exposure reporting and analysis techniques, standardised stress tests, and assessments of ratings migration. Strict enforcement of discipline is also applied on the business side using tools such as RAROC (Risk Adjusted Return on Capital), economic capital computation and portfolio-level returns.

As a result of this continuing discipline, our loan portfolio grew rationally in 2014. Concentrations to the top 10 groups reduced as a proportion of the overall loan book. Sector concentration to real estate and construction reduced despite a healthy deal pipeline. The weighted average portfolio rating improved by one notch over 2013's average, and ADCB's capital adequacy ratio remains above the UAE Central Bank hurdle rate and is amongst the strongest in the country. Robust tools and disciplined credit actions will continue to form an integral part of the credit-decision and pricing process in 2015. We continue to monitor the impact of international and domestic challenges on our portfolio. Continued work on automation and information management will improve and quicken risk reporting to help ADCB prepare for the anticipated Basel III requirements, which the Central Bank of the UAE may implement in the future.

ADCB is also investing to upgrade our risk infrastructure and has embarked on projects such as the digitisation of credit approvals and the upgrade of limit- and collateral-management systems to ensure that our risk management practices remain best in class.

In 2014, fraud risk management was centralised under the Group Risk function, and there are several enhanced fraud-monitoring controls in place. The year also saw focus on compliance-related actions to ensure we are fully compliant with Foreign Account Tax Compliance Act (FATCA) requirements.

A joint project with business was concluded to revisit risk policies and align them with changing market conditions and the macroeconomic climate.

## Risk Governance

### Risk Management

Effective risk management is fundamental to our core strategy. We aim to create a risk-aware, UAE-based retail and commercial bank that is the most valuable bank in the UAE in terms of total shareholder return. Our business models are guided by a documented risk appetite plan and influenced by our risk culture.

Our approach to risk rests on an effective control framework and a strong risk management culture that guides our employees in the way they do business. Our risk appetite is approved by the Board and is operationalised and embedded by the rollout of risk policies, risk limits, exposure tracking and proactive action on emerging risks.

### Approach to Risk Management

ADCB's approach to the risk management process comprises four basic components:

- identification and assessment of risk;
- measurement of risk;
- control of risk; and
- monitoring and reporting of risk.

The understanding, identification and management of risk are essential elements for a successful risk management function.

### Risk Culture

Identification, assessment and management of risk are the responsibilities of every staff member within the scope of their work and assignments. Our standards set the tone from the top and are central to our approach to balancing risk and reward. Personal accountability is reinforced by our ADCB Values, with staff expected to act with integrity in conducting their duties.

### Three Lines of Defence

ADCB employs three lines of defence for the management of risk, understood as a clear set of principles by which to implement a cohesive operating model across ADCB. The model's main purpose is to define accountabilities and responsibilities for managing risk across the organisation.

**01**

**First Line of Defence**

ADCB's business units, including all business areas and functions, are accountable for owning and managing the risks that exist in their area within a defined risk-appetite framework.

Business Units

- Treasury
- Wholesale Banking
- Consumer Banking
- Property Management

**02**

**Second Line of Defence**

Independent monitoring and control functions are accountable for owning and developing the risk and control frameworks. The second line of defence is independent from the business and is accountable for overseeing and challenging the first line of defence on the effective management of its risks.

Risk Management

- Credit
- Risk
- Compliance

**03**

**Third Line of Defence**

The Internal Audit and External Audit groups provide independent assurance on the appropriateness of the design and operational effectiveness of risk management and internal control processes that mitigate ADCB's key risks.

Independent Assurance

- Internal Audit
- External Audit

### Governance Structure

ADCB strongly believes in a disciplined approach to managing risk and has actively fostered an organisation-wide culture of prudent risk management. All risk management reviews, decisions and actions are based on an approved enterprise-wide risk management strategy framework supported by:

- a documented risk-appetite statement;
- a comprehensive set of policies and procedures;
- clearly enunciated broad underwriting criteria by segment; and
- a risk governance structure incorporating sufficient built-in challenges, checks and balances.

Our risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. Integral to our risk management framework are risk appetite, stress testing, and the identification of emerging risks, as discussed in this section.

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

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

The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership of the enforcement of risk strategy and internal control directives laid down by the Board and Board Committees.

The management-level committees also actively manage risk, particularly the Assets & Liabilities Committee, the Management Risk & Credit Committee and the Recoveries Committee, all of which report into the MEC. The Risk Management function, headed by the Bank's Chief Risk Officer, reports independently to the Board Risk & Credit Committee. The Risk function is independent of the Origination, Trading and Sales functions to ensure that balance in risk-reward decisions is not compromised and to ensure transparency of decisions in accordance with standards and policies.

The Risk function exercises control over credit, market, short-term liquidity, operational and compliance risk.

The Board Audit & Compliance Committee provides assistance to the Board to fulfil its duties to ensure and oversee the Bank's financial statements; independence and performance of the Bank's external and internal auditors; compliance with legal and regulatory requirements; and internal policies and control over financial reporting.

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

## Business Model

ADCB's main sources of earnings are interest income from lending and deposits and fee income from transactional and other services. Given the low-interest-rate environment in the UAE, the Bank's net interest income, that is, the difference between the interest earned from lending and the interest paid on deposits, has been under pressure. In order to offset this pressure, the Bank is working to reduce costs and increase non-interest income without compromising the quality and standards to which ADCB is committed.

ADCB's activities expose it to a number of risks — credit risks, concentration risks, market risks, operational risks, liquidity risks and interest rate risks. Various Bank sub-committees and working groups regularly manage and monitor these risks. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) assesses these risks and the capital required to manage them. Key risks are measured by risk-weighted assets (RWAs) and disclosed in our audited financial statements. Further, a detailed list of the risks related to investing in the Bank's securities can be found in the Bank's GMTN prospectus at *http://www.adcb.com/about/investorrelations/financialinformation/adcbsecurities.asp.*

The most significant of these is credit risk. Credit risk arises from lending activities. The second most significant source of risk in terms of RWA impact is operational risk. Its importance is increasing as a result of changes driven by regulation as well as the Bank's strategy. Market risk arises from the Bank's trading activities (traded market risk) and from the impact of changes in market prices on the value of the Bank's other financial assets and liabilities (non-traded market risk), and is the third most significant risk as measured by RWA. ADCB is also exposed to a range of other risks discussed later in this section.

Our risk-weighted assets by risk type are disclosed in Note 50 of the audited financial statements.

## Emerging Risk Scenarios

Identifying and monitoring emerging risks are integral to our approach to risk management. Emerging risks are events that, should they materialise, would lead to a significant unexpected negative outcome, thereby causing the Bank as a whole, or a particular division, to fail to meet one or more strategic objectives. In assessing the potential impact of risk materialisation, we take into account both financial and reputational considerations.

The broad categories of emerging risks that could materially impact ADCB are as follows:

| Emerging risk | Description of risk and potential impact | Mitigation |
|---|---|---|
| Concentration risks | • Increased exposure to large client groups creates concentration risk. The most successful client groups will require increased credit support to sustain their growth. | The Bank monitors concentrations on a continuous basis by customer group, by industry, by geography and by credit risk profile. Risk-Adjusted Return on Capital is strictly enforced in business-screening criteria to ensure that all facilities proposed are appropriately structured and that client income generated is commensurate to the risk weight of assets booked. As a result of these measures, the top 20 largest customer exposures reduced from 41.44% of gross loans in 2013 to 37.04% in 2014 despite an increase in Net Loans and Advances overall. ADCB has one of the highest Capital Adequacy Ratios among UAE and GCC peers as at 31 December 2014. |
| Macroeconomic and geopolitical risks | • Any attack by militants would result in a fundamental reappraisal of both the UAE's and the wider region's risk profile.<br>• A further uptick in tensions between the West and Iran could result in deterioration in the UAE's sovereign risk profile, given the close proximity and deep trade ties between Iran and the UAE.<br>• Downside risks to oil prices in 2015 are elevated, which could undermine the UAE's macroeconomic recovery.<br>• Geopolitical risk remains high in the Middle East as a result of the continued violence and unrest in Egypt and the civil war in Syria, which may spill over into neighbouring countries. Tensions between Israel and Iran add to the risks in the region, although diplomatic contacts with Iran's new administration may engender an improvement in relations. | The Bank has increased its monitoring of the geopolitical and economic outlooks. ADCB has hired a Chief Economist to centrally assess the economic impact of changing geopolitical risks and provide key inputs to drive the Bank's strategy. Where necessary, we adjust our country limits and exposures to reflect our appetite and mitigate these risks as appropriate. |
| Regulatory and legal risks to our business model | • Regulatory developments affecting our business model and profitability arise from governments and regulators continuing to develop policies that may impose new requirements, including in the areas of capital and liquidity management, operational risk, central counterparty exposures and business structure.<br>• Increased costs and reputational damage arising from a failure to achieve fair customer outcomes also pose risk to our business. We are customer-centric by design. In order to achieve our strategic objectives, ADCB puts the customer at the heart of the business. Failure to do so would cause the Bank to fail to achieve strategic objectives, which would affect earnings, liquidity, capital and shareholder confidence adversely. The risk of failure affects all divisions. | We ensure that new requirements are properly considered and can be implemented in an effective manner. We also ensure that our capital and liquidity plans take into account the potential effects of any changes. Capital allocation and liquidity management disciplines have been expanded to incorporate future increased capital and liquidity requirements and to drive appropriate risk management and mitigating actions. ADCB plays an active role in trying to influence the regulatory landscape of the UAE. ADCB either chairs, or is a key member of, several UAE Banks Federation forums.<br><br>The Bank has launched several initiatives:<br>• A new management-level committee, the Customer Experience Committee, ensures customers enjoy a superior and consistent experience.<br>• Net Promoter Scores (NPS) are part of every employee's core objectives.<br>• Fast feedback loops have been incorporated for every customer-facing activity, with defined response times. |
| Risks related to IT/data security | • Increased losses arising from cyberattacks: such attacks are increasing in frequency and severity across the industry. This risk affects all divisions. A successful cyberattack could lead to fraudulent activity or the loss of customer data. The Bank could experience significant losses as a result of the need to reimburse customers, pay fines or both. Furthermore, a successful cyberattack could cause significant damage to the Bank's reputation. | The Bank has initiated a large-scale programme to improve controls over user access. In addition, we have reviewed our websites and taken steps to rationalise them; put additional anti-virus protection in place; obtained insurance to cover data-security risk; and taken steps to educate staff on information protection. |

## Stress Testing

### Overview

At ADCB, stress testing is recognised as an essential risk management tool by the Board, senior management, the businesses and the Risk and Finance functions. Stress testing is embedded in the planning process of the Bank. Our risk appetite has strong links to the stress tests and expresses the Bank minimum capitalisation rate under stress conditions.

BRCC and MRCC receive reports detailing stress tests undertaken as part of the financial planning process. These Committees review and challenge the stress scenarios and consider their impact on ADCB's financial position. ADCB does both Bank-level balance sheet stress tests and specific portfolio-based stress tests.

We use stress-test scenarios that target both firm-wide vulnerabilities and negative global impacts. The relevant stress-testing scenarios are selected based on likelihood and what we believe we must actively plan for, including the following:

***Bank-level balance sheet stress tests and profit-or-loss stress tests***

- Market crisis — Severe tightening of liquidity and decline in securities values
- Global recession — Decline in global demand, oil prices and securities value coupled with monetary flight to safer economies
- Real estate crisis — Sharp decline in real estate property values and increase in defaults coupled with tightening liquidity due to uncertain counterparty risks

***Portfolio-based stress tests***

- Real estate sector — Impact of real estate price drop/oversupply
- Share lending sector — Impact of share price drop
- Retail portfolio — Impact of job losses in the UAE market

### Stress-Testing Methodology

| Scenarios | Description | Specific impact |
|---|---|---|
| **Market crisis** | • International finance markets collapse, leading to limited interbank and wholesale borrowings.<br>• Corporates with exposure to international equity and financial markets face liquidity pressures. | • Significant decline in interbank borrowing<br>• Limited decline in large corporate deposits as clients shore up liquidity, drawing down term deposits<br>• Slight increase in retail probability of default (PD) as firms lay off<br>• Slight increase in corporate PDs<br>• Significant increase in share portfolio PD as equity trading volumes plummet. |
| **Global recession** | • Global macroeconomic recession leading to downturn in global and regional demand. | • Decline in overall market growth rate both for retail and corporate.<br>• Average PDs increase by approximately 50%, resulting in increased non-performing loans<br>• International hot money withdrawn |
| **Real estate crisis** | • Significant decline in real estate and construction sector, affecting Dubai and Abu Dhabi at varying levels. | • Significant increase in PD related to wholesale real estate sector<br>• Some decline in retail assets due to layoffs |

Balance sheet–based stress tests are done on a semi-annual basis and are part of the annual ICAAP exercise. The results of this exercise are taken into consideration in our capital planning process. These stress test results are part of the ICAAP exercise and are shared with the Central Bank of the UAE. ADCB's capital adequacy ratio remains well above the UAE Central Bank 12% requirement. In all cases, ADCB's internal risk appetite requires the Bank to meet a 15% target capital adequacy ratio even under the most severe stress scenario.

In terms of real estate stress-test results, ADCB's portfolio loan-to-value (LTV) ratio remained below 100%, even with a 40% drop in prices. Similarly for share lending, the ADCB's portfolio LTV remained below 100%, even with a 40% drop in prices.

***Liquidity Risk***

The general sources of stress on liquidity in banks emerge from the following factors:

- Over-dependence on more volatile funding sources, such as wholesale funds and interbank funds
- Depositors' ability to switch funds among accounts by electronic means
- Ratings downgrades or other negative news that causes, among other things, reduced market access to unsecured borrowings from the call money market; a reduction or cancellation of interbank credit lines; and/or a reduction of deposits.
- Off-balance-sheet products can give rise to sudden material demands for liquidity at banks, including committed lending facilities to customers, committed backstop facilities, and committed backup lines.

A contingency funding plan is in place to mitigate the potential impacts of the above scenarios on ADCB's liquidity profile. While undertaking the calculations, the following liquidity stress scenarios have been factored in:

| Scenario | Narrative | Assumptions |
|---|---|---|
| 1. GCC-specific market stress | Locally generated market stress scenarios; e.g. political tension in GCC/worries over government support to banks | • All loans and overdraft are rolled over<br>• Loss of some deposits to international banks<br>• Some contingent claims on undrawn credit lines and liability behavioural assumptions |
| 2. Global stress | Globally generated stress | • All loans and overdrafts are rolled over<br>• Significant loss of deposits to other banks<br>• Some contingent claims on undrawn credit lines and severe liability behavioural assumptions |

### *Market Risk*

Within ADCB, an independent Market Risk function is responsible for market valuation and implementing market risk policies. The function vets and approves all valuation models and measures and monitors market risk within a 99% confidence level through value-at-risk (VaR), stressed structural value-at-risk (SVaR) and Greeks. Losses beyond the 99% confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in those situations. Therefore, the Market Risk function carries out daily stress tests/ sensitivity analyses of the Bank's portfolio to simulate conditions outside normal confidence intervals in order to analyse potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market-risk-management framework and considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non-trading books. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The Assets & Liabilities Committee has the responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. The Market Risk function considers the results of stress tests as part of its supervision of risk appetite.

Regular stress-test scenarios are applied to interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the banking and trading books. Ad hoc scenarios reflecting specific market conditions and for particular concentrations of risk that arise within the businesses are also prepared. Market Risk runs over 300 stress tests daily distributed by risk factor per the table below:

| Risk type | # of stress tests |
|---|---|
| Interest rate (IR) | 92 |
| IR volatility | 6 |
| Foreign exchange (FX) | 77 |
| FX volatility | 36 |
| Historical | 9 |
| Bonds | 34 |
| Bond volatility | 2 |
| Commodity — Energy | 18 |
| Commodity — Energy volatility | 6 |
| Commodity — Metals | 12 |
| Equity Index | 14 |

## Risk Appetite

ADCB's strong risk governance reflects the importance placed by the Board and the BRCC on shaping the Bank's risk strategy and managing risks effectively. The Bank's risk strategy is governed by a clear policy framework of risk ownership; a risk appetite process through which the types and levels of risk that we are prepared to accept in executing our strategy are articulated and monitored; performance scorecards that align business and risk objectives; and the accountability of all staff for identifying, assessing and managing risks within the scope of their assigned responsibilities. This personal accountability, reinforced by the governance structure, experience and mandatory learning, helps to foster a disciplined and constructive culture of risk management and control throughout ADCB.

### Risk-Appetite Principles and Key Objectives

To achieve our overarching risk objective, ADCB has the following key risk-appetite principles:

- Limit overall obligor concentrations and manage sector concentrations
- Increase granularity of overall portfolio with healthy risk-adjusted returns
- Fundamentally improve the 'core engine' by investing in core business
- Predefined risk-reward hurdle for all new business
- Strong drive to improve credit quality in both existing and new-to-bank portfolios

We have meticulously applied these risk principles in our day-to-day operations to achieve the following results:

| Metrics | 2014 |
|---|---|
| Top 20 obligor concentration | Top 20 largest customer exposure reduced from 41.4% of gross loans in 2013 to 37.04% in 2014. |
| Granular business growth | Significant growth in granular businesses as per risk strategy — Retail, Mid-Corporate and SME. Retail lending grew by 22% , SME loans grew by 40%, and MCD loans grew by 123% year on year. |
| Portfolio rating | Average portfolio rating is 5+ (equivalent to S&P BB+) as at 31 December 2014. This is a one-notch upgrade since year-end 2013 and a two-notch upgrade since 2012. |

## Risk Appetite Framework

ADCB's risk appetite framework is a key management tool for setting appropriate levels of risk-taking at Bank-wide and business unit levels and therefore is embedded in our business strategy and ambitions.

ADCB's risk appetite is set in absolute terms as a minimum capital ratio and maximum loss in case of stress events. We define our risk appetite in terms of qualitative guidelines that are backed by quantitative measures. Further, the risk appetite is operationalised by setting business unit–level risk-appetite measures such as portfolio rating, RAROC, non-performing loan (NPL) rates, fee income to total income metric, and portfolio size and mix.

## Divisional Risk-Appetite Statement

The Bank's approach to the risks of different business segments is based on the outlook and returns foreseen for the coming years. Given the current regulatory requirements and macroeconomic situation, the Corporate and Retail segments are expected to grow at par with GDP. Target returns will be maintained through fees and float business for new clients, and sales of investment and insurance products for existing names. For Government relationships, the Bank will selectively underwrite syndicated financing mandates whilst focusing on transaction banking and growing our float business with mid-tier Government clients. More granular Middle Commercial and SME relationships will be built on expanded trade and self-funded transactions, whilst growth of the Private Client portfolio will be limited to business that meets internal RAROC hurdle rates.

## Principal Risks Affecting ADCB and Risk Coverage

The principal risks faced by ADCB are presented below, together with a summary of the key areas of focus and how the Bank managed these risks in 2014.

### Credit Risk

| | |
|---|---|
| Definition | Credit risk reflects the risk of losses because one or more counterparties fail to meet all or part of their obligations towards the Bank. Credit risk also includes concentration risk. |
| Arising from, character and impact to ADCB | **Arises from:**<br>• Deteriorating macroeconomic conditions can have an impact on ADCB's performance and credit risk profile.<br>• ADCB's credit portfolio can worsen due to quality of bookings.<br>**Character and impact:**<br>Losses can vary materially across portfolios and may include the risk of loss due to the concentration of credit risk related to a specific product, asset class, sector or counterparty. It has the potential to affect adversely ADCB's financial performance and capital. |
| How we fared in 2014 and our risk-management process for this specific type of risk | **How did we fare in 2014?**<br>During 2014, our collective loan-impairment-allowance balance was AED 2.9 bn and 2.14% of credit-risk-weighted assets, in excess of the Central Bank of the UAE directive for banks to increase the level of collective impairment allowance to 1.50% in 2014. Credit quality continued to improve during 2014, as the overall financial condition of businesses and consumers strengthened and the economic sectors affected by the recession improved. Non-performing loan ratio dropped to 3.1% compared with 4.1% a year earlier, and provision coverage improved to 137.1% from 109.7% in 2013. Total impairment charges were 43% lower year on year in 2014.<br>**ADCB's risk management for this specific type of risk:**<br>• **Measurement —** Measured as the amount that could be lost if a customer or counterparty fails to make repayments.<br>• **Monitoring —** Within limits, approved by individuals within a framework of delegated authorities. These limits represent the peak exposure or loss to which ADCB could be subjected should the customer or counterparty fail to perform its contractual obligations.<br>• **Management —** Through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers, ADCB attempts to mitigate this risk by diversifying our portfolio and managing concentrations. In 2014, every member of the Management Executive Committee had concentration management as part of his/her performance objective. ADCB's risk strategy focuses on growth of granular businesses, and risk parameters are set to encourage granular growth with an improvement in average portfolio quality. ADCB's underwriting guidelines and minimum credit acceptance criteria ensure that the new bookings improve portfolio quality. Consequently, disciplined credit process resulted in the portfolio rating improving by one notch in 2014.<br>*Refer to Note 41 of the audited financial statements and Pillar 3 report for further details.* |

## Market Risk

**Definition**

Market risk is the risk that the Bank's income and/or valuation of financial instruments will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, commodities prices and options volatilities.

**How we fared in 2014 and our risk-management process for this specific risk**

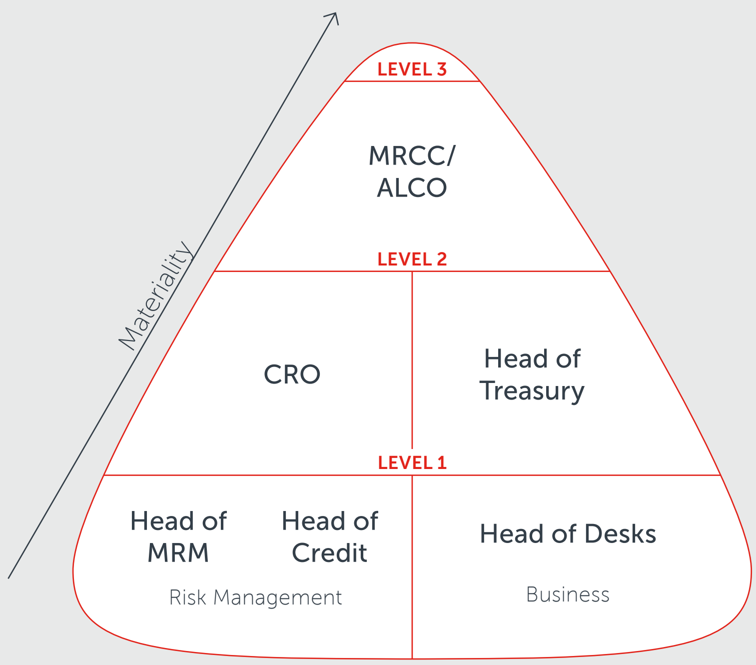
**How did we fare in 2014?**

During 2014, average trading value-at-risk (VaR) remained fairly stable from December 2013.

| Metrics | 31/12/2014 (AED) |
|---|---|
| VaR 1d 99% Confidence Level | (4,897,868) |
| SVaR 1d 99% Confidence Level | (23,164,932) |
| Expected Shortfall (1d) | (5,896,621) |
| CVA | (36,666,187) |

**ADCB's risk management for this specific risk:**

- **Measurement** — Our Market Risk function implements valuation and risk policies for all Level 1 and Level 2 financial Instruments in the trading book. The function independently vets and approves all valuation models for mathematical integrity and suitability. The models are used to measure market risk within 99% confidence level through VaR, SVaR, Expected Shortfall, and First Order Greeks (Delta and Vega). Value at risk and stressed value at risk are used to estimate potential valuation losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (statistical measure of 99%), augmented with stress/sensitivity testing to evaluate the potential impact on valuations of more extreme, though plausible, events or movements in a set of financial variables (non-statistical measures).
- **Monitoring** — Using measures including the valuation of interest rate, foreign exchange rate, fixed income and commodity derivatives, the sensitivity of net interest income and the sensitivity of structural foreign exchange are applied to the market risk positions within each risk type.
- **Managing** — Using risk limits approved by the MRCC, all limit breaches are reported according to their materiality to three different levels of authority:




*Refer to Note 45 of the audited financial statements for further details.*

## Liquidity and Funding Risk

| | |
|---|---|
| Definition | Liquidity risk is the risk that the Bank will be unable to meet its payment obligations of financial liabilities when they fall due and/or to replace funds when they are withdrawn. Funding risk is the risk that the Bank will be unable to achieve its business plans due to its capital position, liquidity position or structural position. |
| Arising from, character and impact to ADCB | **Arises from:**<br>• Liquidity risk arises from mismatches in the timing of cash flows.<br>• Funding risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.<br>**Character and impact:**<br>Liquidity and funding risk is dependent on company-specific factors such as maturity profile and composition of sources and uses of funding, the quality and size of the liquid asset buffer, and broader market factors, such as wholesale market conditions alongside depositor and investor behaviour. This type of risk has the potential to cause the Bank to fail to meet regulatory liquidity requirements, become unable to support normal banking activity or, at worst, cease to be a going concern. |
| How we fared in 2014 and our risk-management process for this specific risk | **How did we fare in 2014?**<br>Survival horizon under stressed conditions and further drawdown of liquidity facilities have improved from 11 months at the end of December 2013 to over one year at the end of December 2014.<br>**ADCB's risk management for this specific risk:**<br>• **Measurement —** Measured using metrics related to Basel III liquidity ratios and survival horizon under liquidity stress tests and contingency funding plans. Liquidity stress tests are carried out using contractual, behavioural and stressed conditions coupled with contingency funding facilities.<br>• **Monitoring —** Against the Bank's liquidity and funding risk, stress-test management action triggers; overseen by Asset and Liability management and the MRCC.<br>• **Management —** Funding is diversified and raised through both retail and wholesale operations. In addition, businesses are required to self-fund all new operations. We also strive to maintain a large portion of our funding as sticky deposits. Our Treasury department ensures access to diverse sources of funding ranging from local customer deposits from both retail and corporate customers to long-term funding, such as debt securities and subordinated liabilities. Further, the Bank also has borrowing facilities from the Central Bank of the UAE to manage liquidity risk during critical times.<br>*Refer to Note 43 of the audited financial statements for further details.* |

## Capital Risk

| | |
|---|---|
| Definition | Capital risk is the risk that the Bank will have inadequate capital resources: to ensure capital requirements set by the Central Bank of the UAE; to safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; or to maintain a strong capital base to support the development of the business. |
| Arising from, character and impact to ADCB | **Arises from:**<br>Inefficient management of capital resources.<br>**Character and impact:**<br>Characterised typically by credit risk losses. Capital risk has the potential to disrupt the business if there is insufficient capital to support business activities. It also has the potential to cause the Bank to fail to meet regulatory requirements. Bank capital and earnings may be affected, impairing the activities of all divisions. |
| How we fared in 2014 and our risk-management process for this specific risk | **How did we fare in 2014?**<br>Capital adequacy ratio at 21.03%, down 18 bps from December 2013 despite an increase of AED 6.2 bn in RWA. Further Tier 1 ratio at 17.01% improved by 39 bps mainly on account of increase of AED 1.6 bn in retained earnings and AED 0.8 bn in other reserves. However, Tier 2 ratio down 57 bps on account of reduction in subordinated debt of AED 0.5 bn. Thus, quality of capital further improved with an increase in Tier 1 capital and reduction in Tier 2.<br>**ADCB's risk management for this specific risk:**<br>• **Measurement —** Measured using capital ratios: core Tier 1 and total capital adequacy ratio using standardised approach (Basel II). Market and operational risk are measured by calculating the capital requirements using the standardised approach (Basel II).<br>• **Monitoring —** The Bank operates a capital-planning process aimed at ensuring the capital position is controlled within the agreed parameters. This incorporates regular re-forecasts of the capital positions of the Bank. In the event that the projected position might deteriorate beyond acceptable levels, the Bank would issue further capital and/or revise business plans accordingly.<br>• **Management —** Capital adequacy and the use of regulatory capital are managed on a regular basis by management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of the UAE. The required information is filed with the regulators on a regular basis as required under Basel II standards. The Bank also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Bank of its risk profile, approaches to assessing and measuring various material risks, and capital planning under regular and stress scenarios.<br>*Refer to the Capital Risk Management section in this section, Note 50 of the audited financial statements and Pillar 3 disclosures for further details.* |

## Operational Risk

| | |
|---|---|
| Definition | Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses. |
| Arising from, character and impact to ADCB | **Arises from:**<br>ADCB's day-to-day operations and is relevant to every aspect of the Bank's business.<br><br>**Character and impact:**<br>May be financial in nature (characterised by either frequent small losses or infrequent material losses), or may lead to direct customer and/or reputational impact (for example, a major IT systems failure or fraudulent activity). It has the potential to affect the Bank's profitability and capital requirements directly, as well as stakeholder confidence. |
| How we fared in 2014 and our risk-management process for this specific risk | **How did we fare in 2014?**<br>There were no material operational losses in 2014.<br><br>**ADCB's risk management for this specific risk:**<br>• **Measurement —** Using both the top risk analysis process and the risk and control assessment (RCA) process, which assess the level of risk and effectiveness of controls.<br>• **Monitoring —** Using key indicators and other internal control activities.<br>• **Management —** Identifying and assessing risks, implementing controls to manage them and monitoring the effectiveness of these controls using the operational risk management framework. 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.<br><br>*Refer to the Pillar 3 disclosures for further details.* |

## Regulatory Risk

| | |
|---|---|
| Definition | Regulatory risk refers to risk the Bank will be exposed to regulatory sanctions/fines on account of a failure to comply with guidelines issued by the regulators, and non-compliance with laws such as Anti–Money Laundering, Anti–Terrorist Financing, etc. |
| Arising from, character and impact to ADCB | **Arises from:**<br>Regulatory, business or operating environment in which ADCB operates and how we respond to these.<br><br>**Character and impact:**<br>Regulatory defaults of non-compliance can result in adverse impacts on the Bank's customers, strategy, business, financial condition or reputation, for instance, through the failure to provide appropriate protections to customers, or from regulatory enforcement or other interventions. |
| How we fared in 2014 and our risk-management process for this specific risk | **How did we fare in 2014?**<br>There were no material incidents of regulatory non-compliance in 2014.<br><br>**ADCB's risk management for this specific risk:**<br>We closely watch key regulatory developments in order to anticipate changes and impact on our business. ADCB participates in regulatory consultative meetings to enhance the financial supervisory framework. ADCB is an active member of various forums such as UAE Banks Federation and actively tries to influence regulations. Regulatory compliance is closely monitored by the Risk and Audit areas under the oversight of the Board-level risk committees.<br><br>Further, we allocate capital to cover any unforeseen sanctions/regulatory fines due to changes in the Bank's internal and external regulatory environment. Based on the peer group experience and taking into account our own complexity, the Bank sets aside capital commensurate with regulatory risk as part of its ICAAP process. |

## Information Security Risk

| | |
|---|---|
| Definition | Information security risk is the risk of loss of confidential information and disruption of processes due to unavailability of IT systems and the risk that this may cause financial damage. |
| Arising from, character and impact to ADCB | **Arises from:**<br>Information security risk arises from information leakage, loss or theft.<br><br>**Character and impact:**<br>Information security risk gives rise to potential financial loss and reputational damage, which could adversely affect customer and investor confidence. Loss of customer data would also trigger regulatory breaches that could result in fines and penalties being incurred. |
| How we fared in 2014 and our risk-management process for this specific risk | **How did we fare in 2014?**<br>No material loss of confidential data or disruption of processes due to unavailability of our IT system were reported in 2014.<br><br>**ADCB's risk management for this specific risk:**<br>ADCB proactively identifies top organisational information security risks by continuous evaluation of threats and by benchmarking Information security controls against leading industry standards.<br><br>An information-risk heat map that maps the Bank's protection mechanisms against ever-evolving cyberthreats is in place and continually updated. Knowledge from a variety of sources such as published research, security forums and regional events is utilised to keep these mechanisms relevant.<br><br>A comprehensive technology-risk-management programme covers classification of assets, identification of vulnerabilities, and assessment of the risks of all internal assets, which enables prioritising and mitigating the internal risks. All internal systems and applications undergo regular security testing, which ensures the effectiveness of security controls. |

## Reputational Risk

| | |
|---|---|
| Definition | Reputational risk refers to the potential adverse effects that can arise from the Bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, or adverse publicity. |
| Arising from, character and impact to ADCB | **Arises from:**<br>Reputational risk could arise from the failure of the Bank to effectively mitigate the risks in any of our businesses including one or more of credit, liquidity, market, regulatory, legal or other operational risks.<br><br>**Character and impact:**<br>Damage to ADCB's reputation could cause existing clients to reduce or stop doing business with us and discourage prospective clients from doing business with ADCB. All employees are responsible for day-to-day identification and management of reputational risk.<br><br>These responsibilities form part of ADCB's Code of Conduct and are further embedded through values-based performance assessments. |
| How we fared in 2014 and our risk-management process for this specific risk | **How did we fare in 2014?**<br>There were no material reported incidents in 2014 that could lead to reputational risk to ADCB.<br><br>**ADCB's risk management for this specific risk:**<br>Reputational risk management is aligned with our focus on creating the most valuable bank in the UAE, our strategic objectives, and our risk-appetite goal of maintaining shareholder confidence.<br><br>ADCB's Risk Management function addresses the reputational risk associated with the clients the Bank chooses to do business with. It sets policy and provides guidance to avoid reputational risk relating to business engagements and lending to clients in sensitive industry sectors. |

## Capital Risk Management

### Overview

Capital risk management is integral to ADCB's approach to financial stability and sustainability management. It helps us to maintain a strong capital base to support the development of our business, to meet regulatory capital requirements at all times and to maintain strong credit ratings.

Our capital-management strategy is driven by the strategic aims of the Bank and the risk appetite set by the Board. The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of our statement of financial position, are:

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

### Our Approach to Capital Risk Management

We employ a forward-looking, risk-based approach to capital risk management. Capital demand and supply are actively managed at a business level, taking into account the regulatory, economic and commercial environment in which ADCB operates. ADCB employs techniques based on the guidelines developed by the Basel Committee and the Central Bank of the UAE. For credit and market risk, the Central Bank has issued guidelines for implementation of the standardised approach, and banks have been required to comply and report under Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank has given banks the option of using the basic indicators approach or the standardised approach. We have chosen to use the standardised approach.

The Bank's approach for calculating its capital requirements under Basel II (Pillar 1) is as follows:

**Credit risk:** We use the standardised approach to calculate our capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off-balance-sheet exposures after applying the credit conversion factors and credit risk mitigants.

**Market risk:** We use the standardised approach for the regulatory market risk capital requirement.

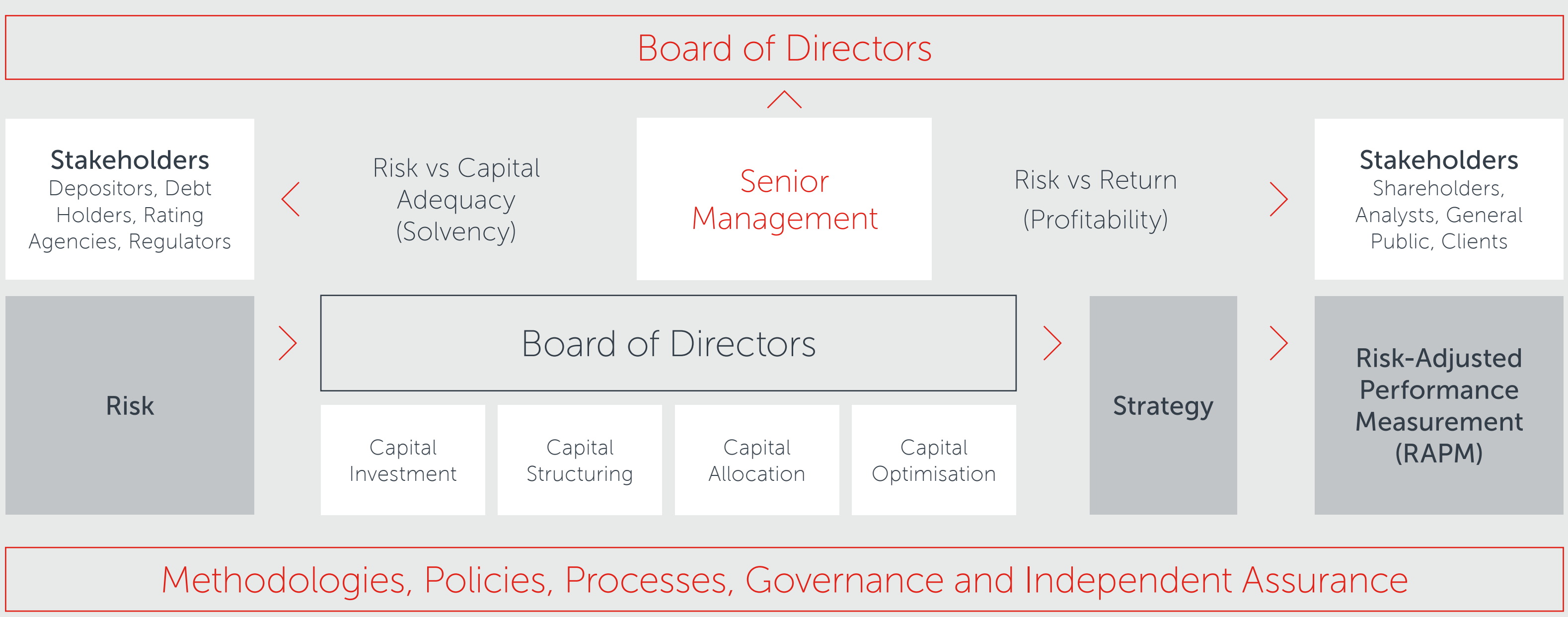
**Operational risk:** We use the standardised approach for computing capital requirement for operational risk.

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

The Bank also publishes annually a more detailed report of all material sector concentrations and risks as part of the Pillar 3 framework of Basel II.

### Capital Planning and Budgeting Process

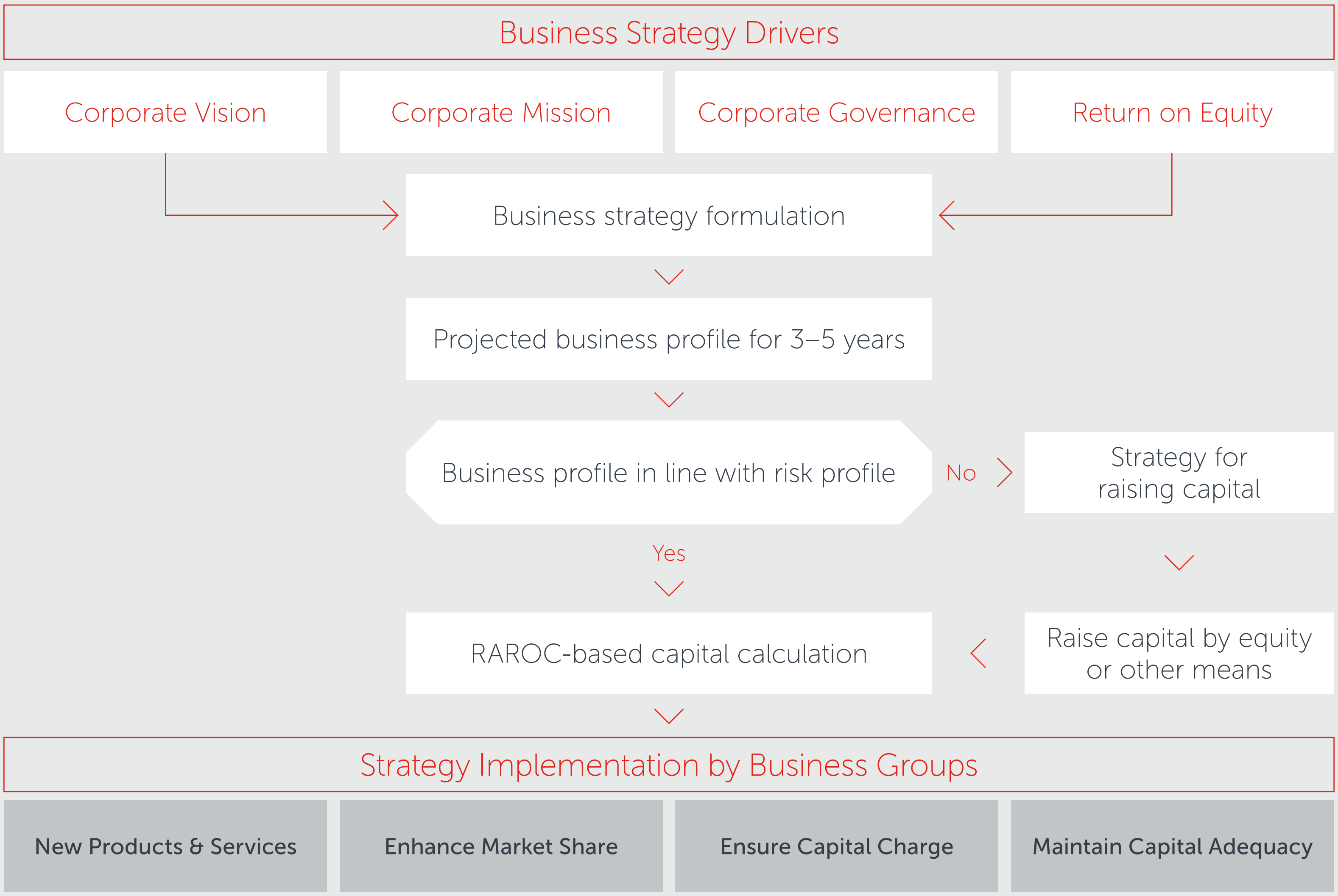
Regulators, in view of the systemic risk that a bank failure carries, the losses it can cause to depositors and the consequent cost of bailouts by the government, rigorously regulate the capital structure of banks. The Basel II Accord focuses on risk management and links the business profile of a bank to its risk profile and, subsequently, to regulatory capital. There is thus an automatic calibration of business profile to the regulatory capital. Thus, the capital structure of ADCB is the fulcrum around which our strategic decisions revolve. A diagrammatic view of the process is presented below:



In practical terms, the role of capital in the Bank is to provide creditor protection. In other words, the role of capital is to act as a buffer against future unidentified losses, thereby protecting depositors and other creditors. Collective provisions provide a cushion against loss events for which there is objective evidence but whose effects are not yet evident, and the capital provides a cushion against unexpected losses. The amount of capital the Bank would hold, therefore, depends on the loss distribution (whether arising from credit, market, operational or any other kinds of risk), our risk appetite, as well as our risk-bearing capacity. Such determination of capital would cover all the Bank's material risks and the methodology to carry out such calculation.

The Bank would also ensure that quality of capital as a loss-absorbing capacity, without any bearing on the solvency of the Bank (which would cover equity capital and other shareholder funds), would be maintained at all times at such level as is approved by the Board of Directors.

A diagrammatic view of our business strategy drivers is presented below:



### Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved. 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 needed to support a particular operation or activity from falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance functions and is subject to review by the ALCO as appropriate.

### Capital Position at 31 December 2014

The Bank's capital position applying prevailing rules as at 31 December 2014 is set out in Note 50 of the audited financial statements.

## Regulatory Developments

Recent financial crises have demonstrated numerous weaknesses in the global regulatory framework and in banks' risk-management practices. In response, regulatory authorities have considered various measures to increase the stability of the financial markets and prevent future negative impact on the economy. One major focus is on strengthening global capital and liquidity rules.

Basel III addresses this, with the goal of improving the banking sector's ability to absorb shocks arising from financial and economic stress. In December 2010, the Basel Committee on Banking Supervision (BCBS) published the Basel III documents "Basel III: A global regulatory framework for more resilient banks and banking systems" (a revised version was published in June 2011) and "Basel III: International framework for liquidity risk measurement, standards and monitoring." With this reform package, the BCBS aims to improve risk management and governance as well as strengthen banks' transparency and disclosure. Basel III is also designed to strengthen the resolution of systemically significant cross-border banks.

## Key Highlights of Basel III Requirements

| | CAPITAL | | | LIQUIDITY |
|---|---|---|---|---|
| | Pillar 1 | Pillar 2 | Pillar 3 | |
| | Minimum capital requirements | Risk management and supervision | Market discipline | Global liquidity standard and supervisory monitoring |
| Capital | **Quality and level of capital**<br>Greater focus on common equity. The minimum will be raised to 4.5% of risk-weighted assets, after deductions.<br>**Capital loss absorption at the point of non-viability**<br>Contractual terms of capital instruments will include a clause that allows — at the discretion of the relevant authority — write-off or conversion to common shares if the bank is judged to be non-viable. This principle increases the contribution of the private sector to resolving future banking crises and thereby reduces moral hazard.<br>**Capital conservation buffer**<br>Comprising common equity of 2.5% of risk-weighted assets, bringing the total common equity standard to 7%. Constraint on a bank's discretionary distributions will be imposed when banks fall into the buffer range.<br>**Countercyclical buffer**<br>Imposed within a range of 0–2.5% comprising common equity, when authorities judge credit growth is resulting in an unacceptable buildup of systematic risk. | **Supplemental Pillar 2 requirements**<br>Address firm-wide governance and risk management; capturing the risk of off-balance-sheet exposures and securitisation activities; managing risk concentrations; providing incentives for banks to better manage risk and returns over the long term; sound compensation practices; valuation practices; stress testing; accounting standards for financial instruments; corporate governance; and supervisory colleges. | **Revised Pillar 3 disclosures requirements**<br>The requirements introduced relate to securitisation exposures and sponsorship of off-balance-sheet vehicles. Enhanced disclosures on the detail of the components of regulatory capital and their reconciliation to the reported accounts will be required, including a comprehensive explanation of how a bank calculates its regulatory capital ratios. | **Liquidity coverage ratio**<br>The liquidity coverage ratio (LCR) will require banks to have sufficient high-quality liquid assets to withstand a 30-day stressed funding scenario that is specified by supervisors.<br>**Net stable funding ratio**<br>The net stable funding ratio (NSFR) is a longer-term structural ratio designed to address liquidity mismatches. It covers the entire balance sheet and provides incentives for banks to use stable sources of funding.<br>**Principles for Sound Liquidity Risk Management and Supervision**<br>The Committee's 2008 guidance Principles for Sound Liquidity Risk Management and Supervision takes account of lessons learned during the crisis and is based on a fundamental review of sound practices for managing liquidity risk in banking organisations.<br>**Supervisory monitoring**<br>The liquidity framework includes a common set of monitoring metrics to assist supervisors in identifying and analysing liquidity risk trends at both the bank and system-wide level. |
| Risk Coverage | **Securitisations**<br>Strengthens the capital treatment for certain complex securitisations. Requires banks to conduct more rigorous credit analyses of externally rated securitisation exposures.<br>**Trading book**<br>Significantly higher capital for trading and derivatives activities, as well as complex securitisations held in the trading book. Introduction of a stressed value-at-risk framework to help mitigate procyclicality. A capital charge for incremental risk that estimates the default and migration risks of unsecuritised credit products and takes liquidity into account.<br>**Counterparty credit risk**<br>Substantial strengthening of the counterparty credit risk framework. Includes: more stringent requirements for measuring exposure; capital incentives for banks to use central counterparties for derivatives; and higher capital for inter-financial sector exposures.<br>**Bank exposures to central counterparties (CCPs)**<br>The Committee has proposed that trade exposures to a qualifying CCP will receive a 2% risk weight and default fund exposures to a qualifying CCP will be capitalised according to a risk-based method that consistently and simply estimates risk arising from such default fund. | | | |
| Containing Leverage | **Leverage ratio**<br>A non-risk-based leverage ratio that includes off-balance-sheet exposures will serve as a backstop to the risk-based capital requirement. Also helps contain system-wide buildup of leverage. | | | |

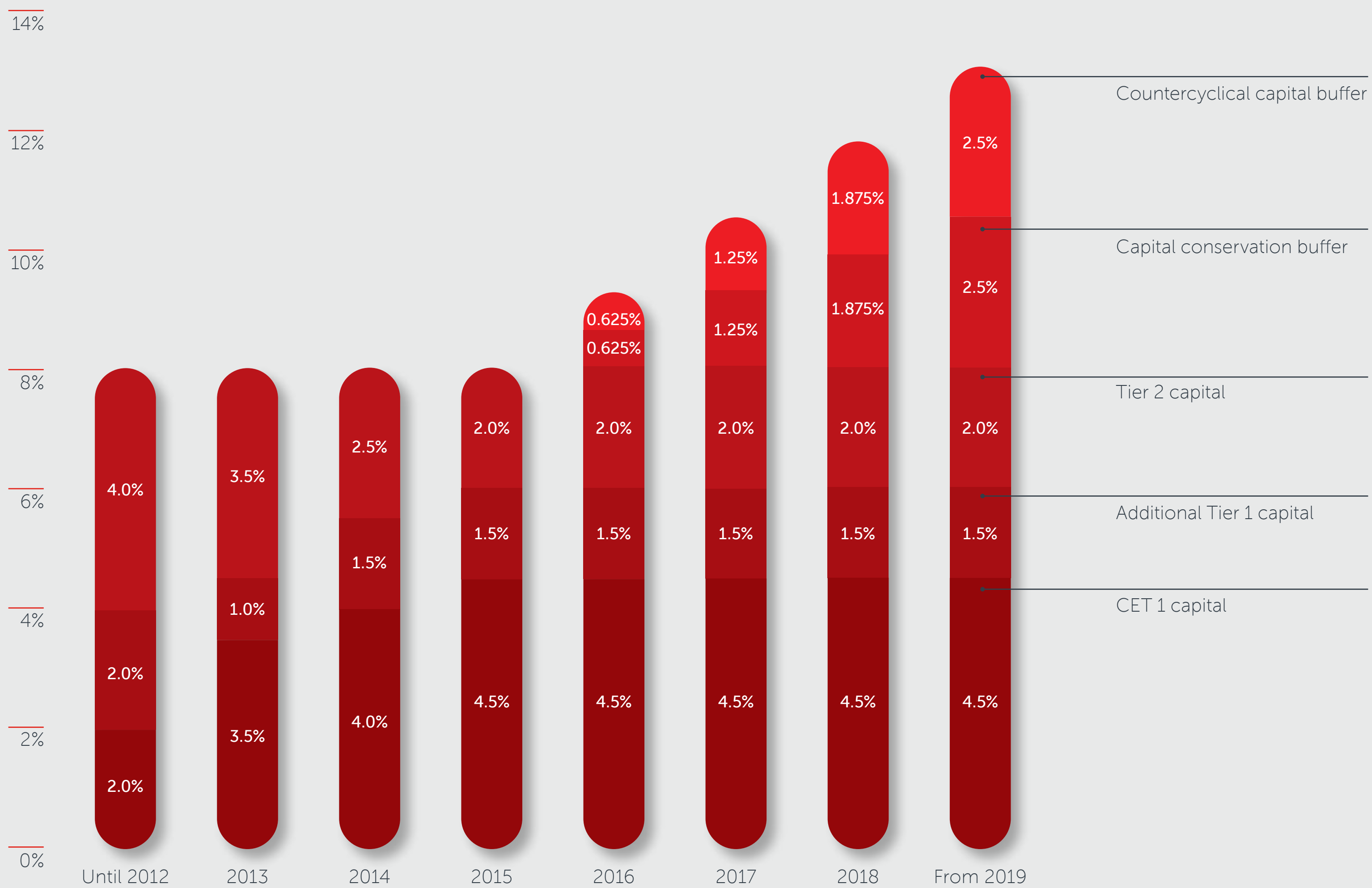
## Future Capital Requirements

As the relevant legislation and rules are not yet fully implemented in the UAE, it is not possible to predict the Bank's final capital requirements. Moreover, actual outcome also depends in part on the future shape of the Bank, future management actions and the future view taken by the Central Bank of the UAE on ADCB's business and risk profile. Based on our current understanding of the rules, a minimum Common Equity Tier 1 (CET 1) capital requirement can be identified as follows:

- A minimum CET 1 requirement of 4.5% by 1 January 2015
- A capital conservation buffer (CCB) of 2.5% by 1 January 2019

Basel III introduces new or revised treatment of liquidity, leverage, RWA,

## Basel III Capital Requirements Evolution






trading, counterparties, central clearing and other risks that require increased capital. ADCB monitors its compliance relative to international standards and is in a notably comfortable position, being well-capitalised with a conservative approach to balance sheet management. The Bank currently operates at capital levels that are well above the current minimum requirements and, additionally, has a number of levers available to manage future regulatory requirements (e.g. Basel III capital conservation buffer, countercyclical buffer), giving comfort that the Bank will comply with Basel III requirements when they are finally adopted in the UAE. The Bank's Tier 1 ratio at the end of 2014 was 17.01%.

### Leverage Ratio

The Basel III reforms include the introduction of a leverage ratio framework designed to reinforce risk-based capital requirements with a simple, transparent, non-risk-based 'backstop' measure. The leverage ratio is defined as Tier 1 capital divided by the exposure measure. The BCBS will test the proposed 3% minimum requirement for the leverage ratio and has proposed that final calibrations, and any further adjustments to the definition of the leverage ratio, will be completed by 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018.

### Liquidity Coverage Ratio

During the crisis of 2007, many global banks experienced severe funding difficulties despite maintaining adequate capital levels because they did not manage their liquidity in a prudent manner. Consequently, the BCBS developed two minimum standards for funding liquidity. In January 2013, the BCBS published a final standard for the liquidity coverage ratio (LCR) that requires banks to have sufficient high-quality liquid assets to withstand a 30-day stressed funding scenario that is specified by supervisors. It also introduced a net stable funding ratio (NSFR) to address longer-term liquidity mismatches. It covers the entire balance sheet and provides incentives for banks to use stable sources of funding. In January 2014, the BCBS published a proposed revision to the NSFR standards. The minimum NSFR requirement to be introduced in January 2018 is 100%. The methodology for estimating the LCR and NSFR is based on an interpretation of the Basel standards and includes a number of assumptions that are subject to change.

In addition to existing liquidity forecasting tools and management techniques, ADCB monitors its position against anticipated Basel III liquidity metrics — the liquidity coverage ratio and the net stable funding ratio.

# Consolidated Financial Statements

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# REPORT OF THE INDEPENDENT AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Abu Dhabi Commercial Bank PJSC
Abu Dhabi, UAE

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank PJSC ("the Bank") and its subsidiaries (together referred to as "the Group") which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2014 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

Further, in respect of the Bank, as required by the UAE Federal Law No. (8) of 1984, as amended, we report that we have obtained all the information we considered necessary for the purposes of our audit; the financial statements of the Bank comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and its Articles of Association; the Bank has maintained proper books of account and the financial statements are in agreement therewith; and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at December 31, 2014. Further, as required by the UAE Union Law No. (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

For **PricewaterhouseCoopers**
January 25, 2015

**Jacques E. Fakhoury**
Registered Auditor Number 379
Abu Dhabi, United Arab Emirates

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2014*

| | Notes | 2014 AED'000 | 2013 AED'000 | 2014 USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with central banks | 5 | 15,092,192 | 9,961,206 | 4,108,955 |
| Deposits and balances due from banks | 6 | 16,019,461 | 11,344,700 | 4,361,411 |
| Trading securities | 7 | 199,599 | 884,640 | 54,342 |
| Derivative financial instruments | 8 | 4,288,506 | 3,616,203 | 1,167,576 |
| Investment securities | 9 | 21,651,838 | 20,854,772 | 5,894,865 |
| Loans and advances, net | 10 | 140,562,498 | 131,648,670 | 38,269,126 |
| Investment in associate | 52 | 195,854 | – | 53,323 |
| Investment properties | 11 | 615,778 | 560,690 | 167,650 |
| Other assets | 12 | 4,551,844 | 3,404,638 | 1,239,271 |
| Property and equipment, net | 13 | 806,188 | 805,322 | 219,490 |
| Intangible assets | 14 | 35,705 | 61,695 | 9,720 |
| **Total assets** | | 204,019,463 | 183,142,536 | 55,545,729 |
| **Liabilities** | | | | |
| Due to banks | 15 | 4,089,019 | 4,291,011 | 1,113,264 |
| Derivative financial instruments | 8 | 5,000,067 | 3,965,587 | 1,361,303 |
| Deposits from customers | 16 | 126,011,227 | 115,427,708 | 34,307,440 |
| Euro commercial paper | 17 | 6,375,284 | 5,940,435 | 1,735,716 |
| Borrowings | 18 | 30,320,121 | 23,785,568 | 8,254,866 |
| Other liabilities | 19 | 5,804,912 | 4,910,917 | 1,580,428 |
| **Total liabilities** | | 177,600,630 | 158,321,226 | 48,353,017 |
| **Equity** | | | | |
| Share capital | 20 | 5,595,597 | 5,595,597 | 1,523,441 |
| Share premium | | 3,848,286 | 3,848,286 | 1,047,723 |
| Other reserves, net of Treasury shares | 21 | 5,791,798 | 5,135,440 | 1,576,857 |
| Retained earnings | | 7,172,755 | 5,597,275 | 1,952,832 |
| Capital notes | 24 | 4,000,000 | 4,000,000 | 1,089,028 |
| **Equity attributable to equity holders of the Bank** | | 26,408,436 | 24,176,598 | 7,189,881 |
| **Non-controlling interests** | | 10,397 | 644,712 | 2,831 |
| **Total equity** | | 26,418,833 | 24,821,310 | 7,192,712 |
| **Total liabilities and equity** | | 204,019,463 | 183,142,536 | 55,545,729 |

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 25 January 2015 and signed on its behalf by:

**Mohamed Sultan Ghannoum Al Hameli**
*Vice Chairman*

**Ala'a Eraiqat**
*Chief Executive Officer*

**Deepak Khullar**
*Chief Financial Officer*

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

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2014*

| | Notes | 2014 AED'000 | 2013 AED'000 | 2014 USD'000 |
|---|---|---|---|---|
| Interest income | 25 | 6,367,955 | 6,519,957 | 1,733,720 |
| Interest expense | 26 | (1,288,783) | (1,551,605) | (350,880) |
| **Net interest income** | | 5,079,172 | 4,968,352 | 1,382,840 |
| Income from Islamic financing | 22 | 617,433 | 596,818 | 168,100 |
| Islamic profit distribution | 22 | (112,096) | (135,988) | (30,519) |
| **Net income from Islamic financing** | | 505,337 | 460,830 | 137,581 |
| **Total net interest and Islamic financing income** | | 5,584,509 | 5,429,182 | 1,520,421 |
| Net fees and commission income | 27 | 1,242,948 | 992,536 | 338,401 |
| Net trading income | 28 | 406,988 | 537,393 | 110,805 |
| Revaluation of investment properties | 11 | 22,330 | – | 6,079 |
| Other operating income | 29 | 272,623 | 360,508 | 74,225 |
| **Operating income** | | 7,529,398 | 7,319,619 | 2,049,931 |
| **Operating expenses** | 30 | (2,563,060) | (2,358,186) | (697,811) |
| **Operating profit before impairment allowances** | | 4,966,338 | 4,961,433 | 1,352,120 |
| Impairment allowances | 31 | (762,247) | (1,334,298) | (207,527) |
| **Profit before taxation** | | 4,204,091 | 3,627,135 | 1,144,593 |
| Overseas income tax expense | | (2,707) | (7,491) | (737) |
| **Net profit for the year** | | 4,201,384 | 3,619,644 | 1,143,856 |
| **Attributed to:** | | | | |
| Equity holders of the Bank | | 4,049,731 | 3,365,309 | 1,102,567 |
| Non-controlling interests | | 151,653 | 254,335 | 41,289 |
| **Net profit for the year** | | 4,201,384 | 3,619,644 | 1,143,856 |
| **Basic earnings per share (AED/USD)** | 32 | 0.74 | 0.59 | 0.20 |
| **Diluted earnings per share (AED/USD)** | 32 | 0.74 | 0.58 | 0.20 |



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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2014*

| | 2014 AED'000 | 2013 AED'000 | 2014 USD'000 |
|---|---|---|---|
| Net profit for the year | 4,201,384 | 3,619,644 | 1,143,856 |
| Items that may be re-classified subsequently to the consolidated income statement | | | |
| Exchange difference arising on translation of foreign operations | (3,699) | (25,353) | (1,007) |
| Fair value changes on cash flow hedges | (52,083) | 14,044 | (14,180) |
| Fair value changes on available-for-sale investments | (99,466) | (65,690) | (27,080) |
| | (155,248) | (76,999) | (42,267) |
| Items that may not be re-classified subsequently to the consolidated income statement | | | |
| Actuarial losses on defined benefit liability | (25,887) | – | (7,048) |
| Total comprehensive income for the year | 4,020,249 | 3,542,645 | 1,094,541 |
| Attributed to: | | | |
| Equity holders of the Bank | 3,868,596 | 3,288,310 | 1,053,252 |
| Non-controlling interests | 151,653 | 254,335 | 41,289 |
| Total comprehensive income for the year | 4,020,249 | 3,542,645 | 1,094,541 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2014*

| | Share capital AED'000 | Share premium AED'000 | Other reserves, net of Treasury shares AED'000 | Retained earnings AED'000 | Capital notes AED'000 | Equity attributable to equity holders of the Bank AED'000 | Non-controlling interests AED'000 | Total equity AED'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | **5,595,597** | **3,848,286** | **5,135,440** | **5,597,275** | **4,000,000** | **24,176,598** | **644,712** | **24,821,310** |
| Net profit for the year | **–** | **–** | **–** | **4,049,731** | **–** | **4,049,731** | **151,653** | **4,201,384** |
| Other comprehensive loss for the year | **–** | **–** | **(155,248)** | **(25,887)** | **–** | **(181,135)** | **–** | **(181,135)** |
| Other movements (Note 21) | **–** | **–** | **811,606** | **(792,635)** | **–** | **18,971** | **–** | **18,971** |
| Dividends to equity holders of the parent | **–** | **–** | **–** | **(1,560,857)** | **–** | **(1,560,857)** | **–** | **(1,560,857)** |
| Net increase in non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **50,527** | **50,527** |
| Disposal of Fund subsidiaries (Note 51) | **–** | **–** | **–** | **–** | **–** | **–** | **(836,495)** | **(836,495)** |
| Net gains on Treasury shares arising on disposal of Fund subsidiaries (Note 51) | **–** | **–** | **–** | **91,521** | **–** | **91,521** | **–** | **91,521** |
| Capital notes coupon paid (Note 24) | **–** | **–** | **–** | **(186,393)** | **–** | **(186,393)** | **–** | **(186,393)** |
| **Balance at 31 December 2014** | **5,595,597** | **3,848,286** | **5,791,798** | **7,172,755** | **4,000,000** | **26,408,436** | **10,397** | **26,418,833** |
| **Balance at 1 January 2013** | 5,595,597 | 3,848,286 | 6,288,591 | 4,537,315 | 4,000,000 | 24,269,789 | 437,800 | 24,707,589 |
| Net profit for the year | – | – | – | 3,365,309 | – | 3,365,309 | 254,335 | 3,619,644 |
| Other comprehensive loss for the year | – | – | (76,999) | – | – | (76,999) | – | (76,999) |
| Other movements (Note 21) | – | – | (1,076,152) | (673,062) | – | (1,749,214) | – | (1,749,214) |
| Dividends paid to equity holders of the parent, net | – | – | – | (1,397,983) | – | (1,397,983) | – | (1,397,983) |
| Net decrease in non-controlling interests | – | – | – | – | – | – | (47,423) | (47,423) |
| Net realised gain on Treasury shares | – | – | – | 5,696 | – | 5,696 | – | 5,696 |
| Capital notes coupon paid (Note 24) | – | – | – | (240,000) | – | (240,000) | – | (240,000) |
| **Balance at 31 December 2013** | 5,595,597 | 3,848,286 | 5,135,440 | 5,597,275 | 4,000,000 | 24,176,598 | 644,712 | 24,821,310 |

For the year ended 31 December 2014, the Board of Directors has proposed to pay cash dividends representing 40% of the paid-up capital (Note 20).



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

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2014*

| | 2014 AED'000 | 2013 AED'000 | 2014 USD'000 |
|---|---|---|---|
| **Operating Activities** | | | |
| Profit before taxation | 4,204,091 | 3,627,135 | 1,144,593 |
| **Adjustments for:** | | | |
| Depreciation on property and equipment (Note 13) | 132,008 | 127,222 | 35,940 |
| Amortisation of intangible assets (Note 14) | 25,990 | 30,431 | 7,076 |
| Revaluation of investment properties (Note 11) | (22,330) | – | (6,079) |
| Impairment allowance on loans and advances, net (Note 41.6) | 1,040,551 | 1,554,120 | 283,297 |
| Discount unwind (Note 41.6) | (160,011) | (144,016) | (43,564) |
| Impairment recoveries, net of allowances on investment securities (Note 31) | (48,952) | (31,858) | (13,328) |
| Net gains from disposal of available-for-sale investments (Note 29) | (22,201) | (32,911) | (6,044) |
| Net gains from trading securities (Note 28) | (98,071) | (307,282) | (26,701) |
| Ineffective portion of hedges — losses (Note 8) | 4,091 | 9,238 | 1,114 |
| Employees' incentive plan benefit expense (Note 23) | 29,309 | 39,448 | 7,980 |
| **Cash flow from operating activities before changes in operating assets and liabilities** | 5,084,475 | 4,871,527 | 1,384,284 |
| (Increase)/decrease in balances with central banks | (2,050,000) | 1,025,000 | (558,127) |
| Increase in due from banks | (2,799,044) | (5,692,166) | (762,059) |
| (Increase)/decrease in net trading derivative financial instruments | (19,229) | 42,957 | (5,235) |
| Net proceeds from disposal of trading securities | 20,026 | 64,519 | 5,452 |
| Increase in loans and advances, net | (10,018,841) | (9,864,527) | (2,727,700) |
| Increase in other assets | (440,627) | (39,573) | (119,964) |
| Increase/(decrease) in due to banks | 65,024 | (278,943) | 17,703 |
| Increase in deposits from customers | 10,571,899 | 6,164,461 | 2,878,274 |
| (Decrease)/increase in other liabilities | (63,752) | 507,322 | (17,356) |
| **Cash from/(used in) operations** | 349,931 | (3,199,423) | 95,272 |
| Overseas tax paid, net | (7,554) | (9,717) | (2,057) |
| **Net cash from/(used in) operations** | 342,377 | (3,209,140) | 93,215 |
| **Investing Activities** | | | |
| Impairment recoveries on available-for-sale investments | 48,952 | 31,858 | 13,328 |
| Overseas tax refund/(paid), net | 3,575 | (34,196) | 973 |
| Net purchase of available-for-sale investments | (7,751,616) | (4,643,834) | (2,110,432) |
| Net proceeds from disposal of available-for-sale investments | 6,990,331 | 2,257,177 | 1,903,167 |
| Additions to investment properties (Note 11) | (12,091) | (17,236) | (3,292) |
| Cash received on disposal of Fund subsidiaries (Note 51) | 95,112 | – | 25,895 |
| Net purchase of property and equipment | (132,874) | (82,610) | (36,176) |
| **Net cash used in investing activities** | (758,611) | (2,488,841) | (206,537) |
| **Financing Activities** | | | |
| Net increase in euro commercial paper | 678,931 | 1,404,151 | 184,844 |
| Net proceeds from borrowings | 27,665,694 | 12,933,276 | 7,532,179 |
| Repayment of borrowings | (20,967,704) | (14,553,447) | (5,708,604) |
| Net proceeds from sale of Treasury shares by Fund subsidiaries | 1,751 | 14,621 | 477 |
| Dividends paid to shareholders, net | (1,560,857) | (1,397,983) | (424,954) |
| Share buyback (Note 20) | (11,691) | (1,796,957) | (3,183) |
| Net movement in non-controlling interests | 50,527 | (47,423) | 13,756 |
| Purchase of employees' incentive plan shares | (31,459) | (630) | (8,565) |
| Capital notes coupon paid (Note 24) | (186,393) | (240,000) | (50,747) |
| **Net cash from/(used in) financing activities** | 5,638,799 | (3,684,392) | 1,535,203 |
| **Net increase/(decrease) in cash and cash equivalents** | 5,222,565 | (9,382,373) | 1,421,881 |
| Cash and cash equivalents at the beginning of the year | 9,797,941 | 19,180,314 | 2,667,557 |
| **Cash and cash equivalents at the end of the year (Note 34)** | 15,020,506 | 9,797,941 | 4,089,438 |

Operating activities include dividend income and interest income on available-for-sale investments.

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

## 1 ACTIVITIES AND AREAS OF OPERATIONS

Abu Dhabi Commercial Bank PJSC ("ADCB" or the "Bank") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE). ADCB is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services through its network of 50 branches and four pay offices in the UAE, two branches in India, one offshore branch in Jersey, and its subsidiaries and one representative office located in London.

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.

ADCB is registered as a public joint stock company in accordance with the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended).

## 2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### AMENDMENTS:

IAS 32 — Financial Instruments: Presentation requires presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off ',
- the application of simultaneous realisation and settlement,
- the offsetting of collateral amounts, and
- the unit of account for applying the offsetting requirements.

IAS 39 — Financial Instruments: Recognition and Measurement: make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

IFRS 10 — Consolidated Financial Statements, IFRS 12 — Disclosure of Interests in Other Entities, and IAS 27 — Separate Financial Statements, relate only to investment entities, therefore will not apply to the Bank.

These amendments do not have any material impact on the Bank's consolidated financial statements.

Other than the above, there are no other IFRS or IFRIC interpretations that were effective for the first time for the financial year beginning 1 January 2014 that are relevant to the Bank's consolidated financial statements.

### ANNUAL IMPROVEMENTS TO IFRS 2010–2012

The annual improvements to IFRS 2010–2012 include a number of amendments to various IFRS, which are summarised below:

The amendments to IFRS 2: (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. These amendments are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in income statement. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to IFRS 8 (i) require an entity to disclose judgements made by management in applying the aggregation criteria to operating segments, including the description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision maker.

The amendments to the basis of conclusion of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing Key Management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related-party transactions the amounts incurred for the service paid or payable to the management entity for the provision of Key Management personnel services. However, disclosure of the components of such compensation is not required.

### ANNUAL IMPROVEMENTS TO IFRS 2011–2013

The annual improvements to IFRS 2011–2013 include a number of amendments to various IFRS, which are summarised below.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definition of financial assets or liabilities within IAS 32.

Management do not anticipate that the application of these improvements will have a significant impact on the Bank's consolidated financial statements.

### STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

The Bank has not early-adopted any new and revised IFRS that have been issued but are not yet effective.

| New standards and significant amendments to standards applicable to the Bank: | Effective for annual periods beginning on or after |
|---|---|
| **Amendments:** | |
| IAS 27 — Separate Financial Statements permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements. | 1 January 2016 |
| IFRS 7 — Financial Instruments: Disclosures (with consequential amendments to IFRS 1) adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements. | 1 January 2016 |
| IFRS 10 — Consolidated Financial Statements and IAS 28 — Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:<br>▶ require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 — Business Combinations)<br>▶ require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.<br>These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves. | 1 January 2016 |
| **New standards:** | |
| IFRS 15 — Revenue from Contracts with Customers provides a single, principles-based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. New disclosures about revenue are also introduced. | 1 January 2017 |
| IFRS 9 — Financial Instruments: Classification and Measurement — A finalised version has been issued which contains accounting requirements for financial instruments, replacing IAS 39 — Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:<br>▶ Classification and measurement — financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. It introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner as under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.<br>▶ Impairment — IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.<br>▶ Hedge accounting — introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.<br>▶ Derecognition — the requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. | 1 January 2018 |

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

IFRS comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

As required by the Securities and Commodities Authority of the UAE ("SCA") Notification No. 2624/2008 dated 12 October 2008, the Bank's exposure in cash and balances with central banks, deposits and balances due from banks, trading, and investment securities outside the UAE have been presented under the respective notes.

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

### 3.2 MEASUREMENT

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

## 3.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

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

## 3.4 USE OF ESTIMATES AND JUDGEMENTS

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

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

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

## 3.5 BASIS OF CONSOLIDATION

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

### Subsidiaries

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

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

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

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

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

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

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

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

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

Changes in the Bank's ownership interests in existing subsidiaries:

Changes in Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Bank's interests is adjusted to reflect the changes in its relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the shareholders of the Bank.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.



### Special purpose entities

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

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

### Funds management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity, as referred to above, or is the principal investor. Information about the Funds managed by the Bank is set out in Note 48.

### Investment in associate

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20% to 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Bank's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases.

When the Bank'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 Bank has an obligation or has made payments on behalf of the investee.

**Joint arrangements**
Joint arrangements are arrangements of which the Bank 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 Bank 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 Bank has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

## 3.6 FOREIGN CURRENCIES

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

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

In the consolidated financial statements, the assets, including related goodwill where applicable, and the liabilities of branches and subsidiaries whose functional currency is not AED, are translated into the Bank's presentation currency at the rate of exchange prevailing at the statement of financial position date. The results of branches and subsidiaries whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign currency translation reserve' (Note 21).

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

## 3.7 FINANCIAL INSTRUMENTS

**Date of recognition**
All financial assets and liabilities are initially recognised on the date at which the Bank becomes a party to the contractual provision of the instrument, except for "regular way" purchases and sales of financial assets which are recognised on a settlement-date basis (other than derivative contracts). Settlement date is the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the timeframe generally established by regulation or convention in the marketplace. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated statement of financial position date is recognised in the consolidated income statement for assets classified as held for trading, and in other comprehensive income for assets classified as available-for-sale, and no adjustments are recognised for assets carried at cost or amortised cost.

**Measurement of financial instruments**
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value, plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

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

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

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

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under net gain on dealing in derivatives (Note 28).

**Financial assets and liabilities designated at fair value through profit or loss (FVTPL)**
Financial assets and liabilities are classified as at FVTPL when either held for trading or when designated as at FVTPL.

A financial asset or liability is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or liability other than held-for-trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise for measuring assets or liabilities on a different basis; or

- it forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets and liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the consolidated income statement.

### Held-to-maturity

Investments which have fixed or determinable payments with fixed maturities which the Bank has the positive intention and ability to hold to maturity are classified as held-to-maturity investments.

Held-to-maturity investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognised on an effective yield basis.

Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

If there is objective evidence that an impairment on held-to-maturity investments carried at amortised cost has been incurred, the amount of impairment loss recognised in the consolidated income statement is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the investments' original effective interest rate.

Investments classified as held-to-maturity and not close to their maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

### Available-for-sale

Investments not classified as either "fair value through profit or loss" or "held-to-maturity" are classified as "available-for-sale". Available-for-sale assets are intended to be held for an indefinite period of time and may be sold in response to liquidity requirements or changes in interest rates, commodity prices or equity prices.

Available-for-sale investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at fair value. The fair values of quoted financial assets in active markets are based on current prices. If the market for a financial asset is not active, and for unquoted securities, the Bank establishes fair value by using valuation techniques (e.g. recent arm's-length transactions, discounted cash flow analysis and other valuation techniques). Only in very rare cases where fair value cannot be measured reliably, investments are carried at cost and tested for impairment, if any.

Gains and losses arising from changes in fair value are recognised in the other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

If an available-for-sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income, accumulating in equity. A subsequent decline in the fair value of the instrument is recognised in the consolidated income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security. Impairment losses recognised on the equity security are not reversed through the consolidated income statement.

### Deposits and balances due from banks and loans and advances, net

Deposits and balances due from banks and loans and advances, net include non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investments will be recovered other than because of credit deterioration. Placements with banks represent time-bound term deposits.

After initial measurement at fair value plus any directly attributable transaction costs, deposits and balances due from banks and loans and advances, net are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the consolidated income statement.

### Debt issued and other borrowed funds

Financial instruments issued by the Bank are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. These are recognised initially at fair value, net of transaction costs.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component.

### Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective-yield basis.

**Reclassification of financial assets**
Reclassifications are recorded at fair value at the date of reclassification, which is recognised as the new amortised cost.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the consolidated income statement.

The Bank may in rare circumstances reclassify a non-derivative trading asset out of the held-for-trading category into the loans and receivables category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Reclassification is at the election of management and is determined on an instrument-by-instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

**Derecognition of financial assets and financial liabilities**
*Financial assets*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has neither transferred its rights to receive cash flows from an asset nor has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

*Financial liabilities*
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or extinguishment is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated income statement.

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

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

## 3.8 SALE AND REPURCHASE AGREEMENTS

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

## 3.9 SECURITIES BORROWING AND LENDING

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

## 3.10 CASH AND CASH EQUIVALENTS

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

## 3.11 LOAN IMPAIRMENT

Refer to the Credit Risk Management section — Note 41.6.

## 3.12 AMORTISED COST MEASUREMENT

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

## 3.13 FAIR VALUE MEASUREMENT

The Bank measures its financial assets and liabilities at the market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or, in its absence, in the most advantageous market for the assets or liabilities.

The Bank considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

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

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

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

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

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

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

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

The Bank's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

## 3.14 HEDGE ACCOUNTING

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

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

### Fair value hedges

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

### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective part is recognised immediately in the consolidated income statement. Amounts accumulated in equity are reclassified from other comprehensive income and transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss, in the same line of the consolidated income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting.

Any cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement from other comprehensive income.

### Net investment hedge

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

### Hedge effectiveness testing

To qualify for hedge accounting, the Bank 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 Bank 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% to 125%. Hedge ineffectiveness is recognised in the consolidated income statement.

**Derivatives that do not qualify for hedge accounting**
All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in "net gains on dealing in derivatives" under Net trading income (Note 28).

### 3.15 EQUITY INSTRUMENTS

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised as the proceeds received, net of direct issue costs.

A financial instrument is classified as equity if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

(b) If the instrument will or may be settled in the Bank's own equity instruments, it is:

- a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
- a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

### 3.16 TREASURY SHARES AND CONTRACTS ON OWN SHARES

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

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

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

### 3.17 FINANCIAL GUARANTEES

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

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

### 3.18 ACCEPTANCES

Acceptances have been considered within the scope of IAS 39 — Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

### 3.19 COLLATERAL PENDING SALE

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

### 3.20 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

### 3.21 LEASING

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

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

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

## 3.22 INVESTMENT PROPERTIES

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. Refer to Note 3.13 for policy on fair valuation.

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

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

## 3.23 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

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

Estimated useful lives are as follows:

| | |
|---|---|
| Freehold properties | 25 years |
| Leasehold and freehold improvements | 7 to 10 years |
| Furniture, equipment and vehicles | 3 to 5 years |
| Computer equipment and accessories | 3 to 10 years |

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

## 3.24 BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

## 3.25 CAPITAL WORK IN PROGRESS

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

## 3.26 BORROWING COSTS

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

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

## 3.27 MANDATORY CONVERTIBLE SECURITIES

The components of mandatory convertible securities issued by the Bank are classified separately as equity and financial liability in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised-cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole. This is recognised and included as a separate component in the consolidated statement of changes in equity and is not subsequently re-measured.

## 3.28 EMPLOYEE BENEFITS

**(i) Employees' end of service benefits**

(a) Defined benefit plan

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

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

(b) Defined contribution plan

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

Pension and national insurance contributions for UAE and GCC citizens are made by the Bank to the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with UAE Federal Law No. 7 of 1999.

**(ii) Termination benefits**

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

**(iii) Short-term employee benefits**

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

**(iv) Employees' incentive plan shares**

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

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

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

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 32).

## 3.29 PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

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

## 3.30 SEGMENT REPORTING

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in products or services within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments. Refer to Note 37 on Business Segment reporting.

## 3.31 TAXATION

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

## 3.32 INTANGIBLE ASSETS

The Bank's intangible assets other than goodwill include intangible assets acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date, which is regarded as their cost.

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

Estimated useful lives are as follows:

| | |
|---|---|
| Credit card customer relationships | 3 years |
| Wealth Management customer relationships | 4 years |
| Core deposit intangibles | 5 years |

## 3.33 REVENUE AND EXPENSE RECOGNITION

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

### (i) Interest income and expense

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest and similar income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### (ii) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

### (iii) Fee and commission income

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

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

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

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

(b) Fee income from providing transaction services

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

## 3.34 ISLAMIC FINANCING

The Bank engages in shari'ah-compliant Islamic banking activities through various Islamic instruments such as Murabaha, Ijara, Salam, Mudaraba, Sukuk and Wakala. These are accounted in accordance with IAS 39 — Financial instrument: Recognition and Measurement.

### Murabaha financing

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

### Ijara financing

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

### Mudaraba

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

### Salam

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

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

### Wakala

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

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

### Sukuk

Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. They are asset-backed trust certificates evidencing ownership of an asset or its *usufruct* (earnings or benefits) and comply with the principle of shari'ah.

Sukuk forms part of debts issued and other borrowed funds as mentioned in Note 18.

## 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

### IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, management judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors, and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.) and judgements to the effect of concentrations of risks and economic data (real estate price indices, country risk, and the performance of different groups, etc.).

The impairment loss on loans and advances is disclosed in more detail in Note 41.6.

### IMPAIRMENT OF AVAILABLE-FOR-SALE INVESTMENTS

The Bank exercises judgement to consider impairment on available-for-sale investments. This includes determination of whether any decline in the fair value below cost of equity instruments is significant or prolonged. In making this judgement, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, or changes in technology.

### VALUATION OF FINANCIAL INSTRUMENTS

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

Valuation techniques used to calculate fair values are discussed in Note 39. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

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

### FAIR VALUATION OF INVESTMENT PROPERTIES

The fair value of investment properties is based on current prices in an active market for properties of a similar nature, condition or location. The Bank bases its estimate of fair value of its investment properties on valuations carried out by independent valuers. The valuations are based upon assumptions such as market conditions, market prices, and future rental income and period.

The fair value movements on investment properties are disclosed in more detail in Note 11.

### CONSOLIDATION OF FUNDS

The changes introduced by IFRS 10 — Consolidated Financial Statements require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The new definition of control requires the Bank to exercise significant judgement on an ongoing basis to determine which entities are controlled and therefore are required to be consolidated. This judgement has been applied in relation to the Bank's equity investments in three mutual funds where, through its investment management role, the Bank has lost de-facto control over Al Nokhitha Fund, ADCB MSCI UAE Index Fund and ADCB Arabian Index Fund on redemption of units held by the Bank in these investees (Refer to Note 51). There are no other investments where significant judgement is required as to whether or not to consolidate.

## 5 CASH AND BALANCES WITH CENTRAL BANKS

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Cash on hand | **786,474** | 586,709 |
| Balances with central banks | **1,359,247** | 370,743 |
| Reserves maintained with central banks | **9,401,659** | 7,448,647 |
| Certificates of deposit with UAE Central Bank | **3,525,000** | 1,475,000 |
| Reverse repo with the Central Bank | **19,812** | 80,107 |
| **Total cash and balances with central banks** | **15,092,192** | 9,961,206 |
| The geographical concentration is as follows: | | |
| Within the UAE | **15,048,413** | 9,857,886 |
| Outside the UAE | **43,779** | 103,320 |
| | **15,092,192** | 9,961,206 |

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

## 6 DEPOSITS AND BALANCES DUE FROM BANKS

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Nostro balances | **769,268** | 1,031,020 |
| Margin deposits | **179,426** | 232,021 |
| Time deposits | **10,681,616** | 8,061,659 |
| Reverse-repo placements | **2,830,049** | – |
| Murabaha placements | **–** | 1,870,000 |
| Wakala placements | **1,375,546** | 150,000 |
| Certificates of deposit | **183,556** | – |
| **Total deposits and balances due from banks** | **16,019,461** | 11,344,700 |
| The geographical concentration is as follows: | | |
| Within the UAE | **7,179,030** | 4,614,768 |
| Outside the UAE | **8,840,431** | 6,729,932 |
| | **16,019,461** | 11,344,700 |

The Bank entered into collateral swap agreements under which bonds with fair value of AED 2,814,042 thousand (31 December 2013 — AED nil) were received as collateral against reverse-repo placements. The risks and rewards relating to these bonds remain with the counterparties.

The Bank hedges its foreign currency time deposits for foreign currency exchange rate risk using foreign exchange swap contracts, and designates these instruments as cash flow hedges. The net negative fair value of these swaps was AED 1,153 thousand as at 31 December 2014 (31 December 2013 — AED nil).

## 7 TRADING SECURITIES

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Bonds | **199,599** | 136,772 |
| Equity instruments | **–** | 747,868 |
| **Total trading securities** | **199,599** | 884,640 |
| The geographical concentration is as follows: | | |
| Within the UAE | **176,540** | 659,568 |
| Outside the UAE | **23,059** | 225,072 |
| | **199,599** | 884,640 |

Bonds represent investments mainly in public-sector and banking institution bonds. The fair value of trading securities is based on quoted market prices. The decline in trading securities is mainly because of the disposal of Fund subsidiaries in March 2014 (Note 51).

## 8 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) it is settled at a future date.

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

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

**Forward and Futures transactions**

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

### Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example: fixed rate for floating rate) or a combination of all these (for example: cross-currency interest rate swaps). No exchange of principal takes place except for certain cross-currency swaps. The Bank's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis through market risk limits on exposures and credit risk assessment of counterparties using the same techniques as those of lending activities.

### Option transactions

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer over the counter (OTC).

Derivative contracts can be exchange-traded or OTC. The Bank values exchange-traded derivatives using inputs at market-clearing levels. OTC derivatives are valued using market-based inputs or broker/dealer quotations. Where models are required, the Bank uses a variety of inputs, including contractual terms, market prices, market volatilities, yield curves and other reference-market data.

### Fair value measurement models

For OTC derivatives that trade in liquid markets such as generic forwards, swaps and options, model inputs can generally be verified and model selection conforms to market practice. Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Subsequent to initial recognition, the Bank only updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services, and/or broker dealer quotations or other empirical market data. In the absence of such evidence, management best estimates are used.

### Derivatives held or issued for trading purposes

The Bank's trading activities are predominantly related to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Bank also manages risk taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

### Derivatives held or issued for hedging purposes

The Bank uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange contracts, cross-currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. In all such cases, the hedging relationship and objectives, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for based on the type of hedge.

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

| | Fair values | |
|---|---|---|
| | Assets AED'000 | Liabilities AED'000 |
| **31 December 2014** | | |
| **Derivatives held or issued for trading** | | |
| Foreign exchange derivatives | **824,724** | **846,365** |
| Interest rate and cross-currency swaps | **2,713,510** | **2,713,377** |
| Options | **117,054** | **170,155** |
| Futures (exchange-traded) | **2,536** | **146** |
| Commodity and energy swaps | **295,998** | **295,557** |
| Swaptions | **91,383** | **16,221** |
| **Total derivatives held or issued for trading** | **4,045,205** | **4,041,821** |
| **Derivatives held as fair value hedges** | | |
| Interest rate and cross-currency swaps | **220,978** | **708,262** |
| **Derivatives held as cash flow hedges** | | |
| Interest rate and cross-currency swaps | **19,109** | **29,722** |
| Forward foreign exchange contracts | **3,214** | **220,262** |
| **Total derivatives held as cash flow hedges** | **22,323** | **249,984** |
| **Total derivative financial instruments** | **4,288,506** | **5,000,067** |
| **31 December 2013** | | |
| **Derivatives held or issued for trading** | | |
| Foreign exchange derivatives | 104,597 | 87,341 |
| Interest rate and cross-currency swaps | 2,869,393 | 2,853,585 |
| Options | 58,591 | 156,821 |
| Futures (exchange-traded) | 1,767 | – |
| Commodity and energy swaps | 36,767 | 36,385 |
| Swaptions | 70,685 | 23,513 |
| **Total derivatives held or issued for trading** | 3,141,800 | 3,157,645 |
| **Derivatives held as fair value hedges** | | |
| Interest rate and cross-currency swaps | 295,327 | 807,917 |
| **Derivatives held as cash flow hedges** | | |
| Interest rate and cross-currency swaps | 42,273 | – |
| Forward foreign exchange contracts | 136,803 | 25 |
| **Total derivatives held as cash flow hedges** | 179,076 | 25 |
| **Total derivative financial instruments** | 3,616,203 | 3,965,587 |

The contractual notional value of derivatives outstanding as at 31 December 2014 were AED 294,969,979 thousand (31 December 2013 – AED 300,502,784 thousand). These notional amounts indicate the volume of transactions and are neither indicative of the market risk nor credit risk.

The net hedge ineffectiveness losses recognised in the consolidated income statement are as follows:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| (Losses)/gains on the hedged items attributable to risk hedged | **(28,594)** | 554,369 |
| Gains/(losses) on the hedging instruments | **25,306** | (564,084) |
| Fair value ineffectiveness | **(3,288)** | (9,715) |
| Cash flow hedging ineffectiveness | **(803)** | 477 |
| | **(4,091)** | (9,238) |

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

| Forecast net cash flows | Less than 3 months AED'000 | 3 months to less than 1 year AED'000 | 1 year to less than 2 years AED'000 | 2 years to less than 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **2014** | **(81,344)** | **(145,603)** | **(15,914)** | **(26,659)** | **(269,520)** |
| 2013 | 104,430 | 42,034 | 1,334 | 17,508 | 165,306 |

As at 31 December 2014, the Bank received cash collateral of AED 262,370 thousand (31 December 2013 — AED 341,993 thousand) against derivative assets from certain counterparties.

As at 31 December 2014, the Bank placed cash collateral of AED 552,202 thousand (31 December 2013 — AED 280,378 thousand) and investment securities of AED 1,787,944 thousand (31 December 2013 — AED 1,502,425 thousand) against the negative fair value of derivative liabilities.

## 9 INVESTMENT SECURITIES

| | UAE AED'000 | Other GCC countries AED'000 | Rest of the world AED'000 | Total AED'000 |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| **Available-for-sale investments** | | | | |
| **Quoted** | | | | |
| Government securities | **1,528,323** | **1,678,831** | **1,523,242** | **4,730,396** |
| Bonds — Public sector | **4,407,000** | **45,090** | **286,869** | **4,738,959** |
| Bonds — Banks and financial institutions | **2,740,513** | **757,993** | **7,026,279** | **10,524,785** |
| Bonds — Corporate | **116,358** | **–** | **42,292** | **158,650** |
| Equity instruments | **824** | **–** | **–** | **824** |
| Mutual funds | **165,835** | **–** | **–** | **165,835** |
| **Total quoted** | **8,958,853** | **2,481,914** | **8,878,682** | **20,319,449** |
| **Unquoted** | | | | |
| Government securities | **–** | **895,713** | **–** | **895,713** |
| Bonds — Public sector | **57,699** | **–** | **–** | **57,699** |
| Bonds — Corporate | **–** | **–** | **761** | **761** |
| Equity instruments | **314,855** | **–** | **13,281** | **328,136** |
| Mutual funds | **50,080** | **–** | **–** | **50,080** |
| **Total unquoted** | **422,634** | **895,713** | **14,042** | **1,332,389** |
| **Total available-for-sale investments** | **9,381,487** | **3,377,627** | **8,892,724** | **21,651,838** |
| **31 December 2013** | | | | |
| **Available-for-sale investments** | | | | |
| **Quoted** | | | | |
| Government securities | 2,675,550 | 1,294,248 | 487,908 | 4,457,706 |
| Bonds — Public sector | 5,428,547 | 491,255 | – | 5,919,802 |
| Bonds — Banks and financial institutions | 2,249,622 | 834,683 | 6,926,363 | 10,010,668 |
| Bonds — Corporate | 90,833 | – | – | 90,833 |
| Equity instruments | 1,028 | – | – | 1,028 |
| **Total quoted** | 10,445,580 | 2,620,186 | 7,414,271 | 20,480,037 |
| **Unquoted** | | | | |
| Bonds — Public sector | 58,147 | – | – | 58,147 |
| Bonds — Banks and financial institutions | – | – | 32 | 32 |
| Bonds — Corporate | – | – | 1,131 | 1,131 |
| Equity instruments | 230,476 | – | 13,240 | 243,716 |
| Mutual funds | 71,709 | – | – | 71,709 |
| **Total unquoted** | 360,332 | – | 14,403 | 374,735 |
| **Total available-for-sale investments** | 10,805,912 | 2,620,186 | 7,428,674 | 20,854,772 |

The Bank hedges interest rate and foreign currency risks on certain fixed rate and floating rate investments through interest rate and cross-currency swaps and designates these as fair value and cash flow hedges, respectively. The net negative fair value of these interest rate swaps at 31 December 2014 was AED 18,271 thousand (31 December 2013 — net negative fair value AED 210,427 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement.

The Bank entered into repurchase agreements and total return swap agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged remained with the Bank. The following table reflects the carrying value of these bonds and the associated financial liabilities:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Carrying value of pledged assets AED'000** | **Carrying value of associated liabilities AED'000** | Carrying value of pledged assets AED'000 | Carrying value of associated liabilities AED'000 |
| Repurchase financing | **4,765,545** | **4,589,111** | 2,390,637 | 2,274,631 |

Further, the Bank pledged investment securities with fair value amounting to AED 1,802,584 thousand (31 December 2013 — AED 1,508,768 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remained with the Bank.

The movement in investment securities is as follows:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Opening balance | **20,854,772** | 18,712,916 |
| Purchases, net (*) | **8,015,861** | 4,643,834 |
| Disposals including capital refunds | **(6,968,130)** | (2,224,266) |
| Fair value adjustments | **(156,396)** | (277,800) |
| Exchange difference | **(94,269)** | 88 |
| **Closing balance** | **21,651,838** | 20,854,772 |

(*) Included in current-year purchases is AED 169,976 thousand arising on deconsolidation of Fund subsidiaries (Note 51).

## 10 LOANS AND ADVANCES, NET

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Overdrafts (retail and corporate) | **3,653,030** | 4,396,183 |
| Retail loans | **17,753,730** | 14,957,734 |
| Corporate loans | **103,580,954** | 101,121,762 |
| Credit cards | **2,776,695** | 2,238,316 |
| Islamic financing assets (Note 22) | **11,155,913** | 10,666,627 |
| Other facilities | **8,419,919** | 5,157,995 |
| **Gross loans and advances** | **147,340,241** | 138,538,617 |
| Less: Allowance for impairment (Note 41.6) | **(6,777,743)** | (6,889,947) |
| **Total loans and advances, net** | **140,562,498** | 131,648,670 |

The Bank hedges certain fixed rate and floating rate loans and advances 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 31 December 2014 was AED 4,152 thousand (31 December 2013 — net positive fair value of AED 9,103 thousand).

## 11 INVESTMENT PROPERTIES

| | Completed and in use AED'000 | Under development AED'000 | Total AED'000 |
|---|---|---|---|
| **1 January 2013** | 264,695 | 264,700 | 529,395 |
| Additions during the year | 14,147 | 17,148 | 31,295 |
| Transfer on completion of construction | 281,848 | (281,848) | – |
| **1 January 2014** | **560,690** | **–** | **560,690** |
| Additions during the year | **32,758** | **–** | **32,758** |
| Revaluation of investment properties | **22,330** | **–** | **22,330** |
| **31 December 2014** | **615,778** | **–** | **615,778** |

Included in commitments and contingent liabilities (Note 36) is AED 1,740 thousand (31 December 2013 — AED 11,872 thousand) being future-committed expenditures on investment property.

Additions during the year include AED 20,667 thousand (31 December 2013 — AED 14,059 thousand), being land and real estate acquired on settlements of certain loans and advances. This being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

As approved by the Central Bank of the UAE, the Bank can hold these real estate assets for a maximum period of three years and can extend the holding period with further approval. The Bank can also rent these properties and earn rental income.

### FAIR VALUATIONS

Valuations are carried out by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The properties were valued during the last quarter of the year.

The valuation methodologies considered by external valuers include:

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

All investment properties of the Bank are located within the UAE.

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

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Rental income | **39,917** | 19,748 |
| Direct operating expenses | **6,013** | 2,403 |



## 12 OTHER ASSETS

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Interest receivables | **1,017,819** | 911,968 |
| Advance tax | **21,959** | 79,603 |
| Clearing receivables | **368** | 404 |
| Prepayments | **65,830** | 38,985 |
| Acceptances | **2,906,420** | 2,140,725 |
| Others | **539,448** | 232,953 |
| **Total other assets** | **4,551,844** | 3,404,638 |

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability (Note 19) in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

## 13 PROPERTY AND EQUIPMENT, NET

| | Freehold properties and improvements AED'000 | Leasehold improvements AED'000 | Furniture, equipment and vehicles AED'000 | Computer equipment and accessories AED'000 | Capital work in progress AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 January 2013 | 846,011 | 131,619 | 159,139 | 453,536 | 28,817 | 1,619,122 |
| Exchange difference | (430) | (2) | (734) | – | (3) | (1,169) |
| Additions during the year | – | 347 | 2,366 | 1,674 | 78,875 | 83,262 |
| Transfers | 3,652 | 4,664 | 6,547 | 46,179 | (61,042) | – |
| Transfer to expenses | – | – | – | – | (4) | (4) |
| Disposals during the year | (251) | – | (576) | (166) | – | (993) |
| **At 1 January 2014** | **848,982** | **136,628** | **166,742** | **501,223** | **46,643** | **1,700,218** |
| Exchange difference | **(61)** | **–** | **(88)** | **–** | **–** | **(149)** |
| Additions during the year | **410** | **86** | **2,090** | **6,164** | **124,288** | **133,038** |
| Transfers | **5,435** | **7,611** | **8,694** | **109,457** | **(131,197)** | **–** |
| Disposals during the year | **–** | **–** | **(996)** | **(366)** | **–** | **(1,362)** |
| **At 31 December 2014** | **854,766** | **144,325** | **176,442** | **616,478** | **39,734** | **1,831,745** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2013 | 227,237 | 73,588 | 125,954 | 342,409 | – | 769,188 |
| Exchange difference | (50) | (2) | (542) | – | – | (594) |
| Charge for the year | 37,304 | 18,023 | 12,965 | 58,930 | – | 127,222 |
| Disposals during the year | (179) | – | (575) | (166) | – | (920) |
| **At 1 January 2014** | **264,312** | **91,609** | **137,802** | **401,173** | **–** | **894,896** |
| Exchange difference | **(17)** | **–** | **(24)** | **(53)** | **–** | **(94)** |
| Transfers | **–** | **–** | **(2,539)** | **2,539** | **–** | **–** |
| Charge for the year | **37,083** | **17,288** | **10,989** | **66,648** | **–** | **132,008** |
| Disposals during the year | **–** | **–** | **(920)** | **(333)** | **–** | **(1,253)** |
| **At 31 December 2014** | **301,378** | **108,897** | **145,308** | **469,974** | **–** | **1,025,557** |
| **Carrying amount** | | | | | | |
| **At 31 December 2014** | **553,388** | **35,428** | **31,134** | **146,504** | **39,734** | **806,188** |
| At 31 December 2013 | 584,670 | 45,019 | 28,940 | 100,050 | 46,643 | 805,322 |

## 14 INTANGIBLE ASSETS

| | Goodwill AED'000 | Other intangible assets: Credit card customer relationship AED'000 | Other intangible assets: Wealth management customer relationship AED'000 | Other intangible assets: Core deposit intangible AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| As at 1 January 2013 | 18,800 | 12,700 | 18,000 | 112,700 | 162,200 |
| **As at 31 December 2014** | **18,800** | **12,700** | **18,000** | **112,700** | **162,200** |
| **Accumulated amortisation** | | | | | |
| As at 1 January 2013 | – | 9,409 | 9,950 | 50,715 | 70,074 |
| Amortisation during the year | – | 3,291 | 4,600 | 22,540 | 30,431 |
| **As at 1 January 2014** | **–** | **12,700** | **14,550** | **73,255** | **100,505** |
| Amortisation during the year | **–** | **–** | **3,450** | **22,540** | **25,990** |
| **As at 31 December 2014** | **–** | **12,700** | **18,000** | **95,795** | **126,495** |
| **Carrying amount** | | | | | |
| **At 31 December 2014** | **18,800** | **–** | **–** | **16,905** | **35,705** |
| At 31 December 2013 | 18,800 | – | 3,450 | 39,445 | 61,695 |

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

### GOODWILL

For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes, which is not higher than the Bank's business segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| | AED'000 |
|---|---|
| **Cash-generating unit (CGU)** | |
| Credit cards | 10,784 |
| Loans | 5,099 |
| Overdrafts | 94 |
| Wealth management business | 2,823 |
| **Total goodwill** | **18,800** |

### OTHER INTANGIBLE ASSETS

| | |
|---|---|
| Customer relationships | Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, credit card and wealth management customers were considered separately, given their differing risk profiles, relationships and loyalty. These relationships are expected to generate material recurring income in the form of interest, fees and commission. |
| Core deposit intangible | The value of core deposit intangible assets arises from the fact that the deposit base of the Bank represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible. |

### IMPAIRMENT ASSESSMENT OF GOODWILL

No impairment losses on goodwill were recognised during the year ended 31 December 2014 (2013 — AED nil).

The recoverable amounts for the CGUs have been assessed based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of these units. Value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the business plan in 2014. Cash flows were extrapolated using a rate expected to be realised by these businesses. The forecast period is based on the Bank's current perspective with respect to the operation of these units and ranges from two to three years.
- Appropriate discount rates were applied in determining the recoverable amounts for the CGUs. These discount rates were estimated based on a capital asset pricing model using data from US bond and UAE capital markets.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonable changes in these assumptions are not expected to cause the recoverable amount of the units to decline below the carrying amount.

## 15 DUE TO BANKS

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Vostro balances | **578,213** | 192,242 |
| Margin deposits | **96,200** | 255,097 |
| Time deposits | **3,414,606** | 3,843,672 |
| **Total due to banks** | **4,089,019** | 4,291,011 |

## 16 DEPOSITS FROM CUSTOMERS

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Time deposits | **57,075,373** | 65,550,746 |
| Current account deposits | **46,823,595** | 37,131,506 |
| Savings deposits | **8,895,672** | 6,951,691 |
| Murabaha deposits | **12,114,262** | 4,974,515 |
| Long-term government deposits (Note 41.5) | **425,898** | 436,008 |
| Margin deposits | **676,427** | 383,242 |
| **Total deposits from customers** | **126,011,227** | 115,427,708 |

For Islamic deposits (excluding Murabaha deposits) included in the above table, refer to Note 22.

The Bank hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these as cash flow hedges. The net negative fair value of these swaps at 31 December 2014 was AED 47,920 thousand (31 December 2013 — net positive fair value of AED 59,578 thousand).

## 17 EURO COMMERCIAL PAPER

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

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| **Currency** | | |
| Swiss franc (CHF) | **619,295** | 618,385 |
| Euro (EUR) | **1,082,659** | 1,568,178 |
| GB pound (GBP) | **1,441,410** | 1,329,692 |
| US dollar (USD) | **3,231,920** | 2,424,180 |
| **Total euro commercial paper** | **6,375,284** | 5,940,435 |

The Bank hedges certain ECP for foreign currency exchange 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 31 December 2014 was AED 166,883 thousand (31 December 2013 — net positive fair value of AED 77,202 thousand).

ECP are issued at a discount and the discount rate ranges between 0.08% to 0.77% (31 December 2013 — 0.12% to 1.03%).

For maturity analysis of ECP borrowings, refer to Note 43.

## 18 BORROWINGS

The details of borrowings as at 31 December 2014 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) | – | – | 839,792 | – | 839,792 |
| | Chinese renminbi (CNH) | – | 173,580 | – | – | 173,580 |
| | Euro (EUR) | – | – | – | 55,463 | 55,463 |
| | Malaysian ringgit (MYR) | 871,058 | 847,028 | – | – | 1,718,086 |
| | Swiss franc (CHF) | 575,705 | 388,677 | – | – | 964,382 |
| | Turkish lira (TRY) | – | 94,003 | – | – | 94,003 |
| | UAE dirham (AED) | – | 500,000 | – | – | 500,000 |
| | Japanese yen (JPY) | – | 200,609 | 54,254 | – | 254,863 |
| | US dollar (USD) | – | 1,889,547 | 7,681,016 | 1,622,610 | 11,193,173 |
| | | 1,446,763 | 4,093,444 | 8,575,062 | 1,678,073 | 15,793,342 |
| Islamic sukuk notes | US dollar (USD) | – | 1,832,850 | – | – | 1,832,850 |
| Bilateral loans — floating rate | US dollar (USD) | 1,469,200 | 1,831,011 | – | – | 3,300,211 |
| Subordinated notes — floating rate | US dollar (USD) | 1,058,855 | – | – | – | 1,058,855 |
| — fixed rate | US dollar (USD) | – | – | – | 3,819,331 | 3,819,331 |
| | Swiss franc (CHF) | – | – | – | 380,130 | 380,130 |
| Borrowings through repurchase agreements | US dollar (USD) | 4,589,111 | – | – | – | 4,589,111 |
| | | 8,563,929 | 7,757,305 | 8,575,062 | 5,877,534 | 30,773,830 |
| Fair value adjustment on borrowings hedged | | | | | | (453,709) |
| | | | | | | 30,320,121 |

Included in borrowings is AED 19,425,136 thousand which have been hedged using interest rate and cross-currency swaps. These swaps are designated as either fair value or cash flow hedges. The net negative fair value of these swaps as at 31 December 2014 was AED 484,870 thousand.

The details of borrowings as at 31 December 2013 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 | Chinese renminbi (CNH) | – | – | 173,580 | – | 173,580 |
| | Malaysian ringgit (MYR) | – | 871,027 | 847,028 | – | 1,718,055 |
| | Swiss franc (CHF) | – | 575,705 | 388,677 | – | 964,382 |
| | Turkish lira (TRY) | – | 94,003 | – | – | 94,003 |
| | UAE dirham (AED) | – | – | 500,000 | – | 500,000 |
| | Japanese yen (JPY) | – | 92,046 | – | – | 92,046 |
| | US dollar (USD) | 4,218,641 | – | 4,627,500 | 624,410 | 9,470,551 |
| | | 4,218,641 | 1,632,781 | 6,536,785 | 624,410 | 13,012,617 |
| Islamic sukuk notes | US dollar (USD) | – | 1,831,435 | – | – | 1,831,435 |
| Bilateral loans — floating rate | US dollar (USD) | 1,652,261 | – | – | – | 1,652,261 |
| Subordinated notes — floating rate | US dollar (USD) | – | 1,058,152 | – | – | 1,058,152 |
| — fixed rate | US dollar (USD) | – | – | – | 3,816,027 | 3,816,027 |
| | Swiss franc (CHF) | – | – | – | 380,130 | 380,130 |
| Borrowings through repurchase agreements | US dollar (USD) | 2,274,631 | – | – | – | 2,274,631 |
| Certificates of deposit (CDs) | Euro (EUR) | 50,587 | – | – | – | 50,587 |
| | | 8,196,120 | 4,522,368 | 6,536,785 | 4,820,567 | 24,075,840 |
| Fair value adjustment on borrowings hedged | | | | | | (290,272) |
| | | | | | | 23,785,568 |

Included in borrowings is AED 17,567,911 thousand which has been hedged using interest rate, foreign exchange and cross-currency swaps. These swaps are designated as either fair value or cash flow hedges. The net negative fair value of these swaps as at 31 December 2013 was AED 268,993 thousand.

## GLOBAL MEDIUM-TERM NOTES

Interest on Global Medium-Term Notes is payable quarterly, semi-annually and annually in arrears and the contractual coupon rates as at 31 December 2014 are as follows:

| Currency | Within 1 year | 1–3 years | 3–5 years | Over 5 years |
|---|---|---|---|---|
| AUD | – | – | Fixed rate of 4.75% p.a. | – |
| CNH | – | Fixed rate of 3.7% to 4.125% p.a. | – | – |
| EUR | – | – | – | Quarterly coupons with 59 basis points over EURIBOR |
| MYR | Fixed rate of 5.2% p.a. | Fixed rate of 4.30% to 5.35% p.a. | – | – |
| CHF | Fixed rate of 3.01% p.a. | Quarterly coupons with 110 basis points over CHF LIBOR | – | – |
| TRY | – | Fixed rate of 12.75% p.a. | – | – |
| AED | – | Fixed rate of 6% p.a. | – | – |
| JPY | – | Fixed rate of 0.41% p.a. and 0.81% p.a. | Fixed rate of 0.68% p.a. | – |
| USD(*) | – | Quarterly coupons with 108 to 130 basis points over LIBOR | Fixed rate between 2.50% p.a. and 3% p.a. | Fixed rate of 4.70% to 5.12% p.a. and quarterly coupons with 73 basis points over LIBOR |

(*) Include AED 668,862 thousand 30-year accreting notes with yield ranging from 4.8% to 5.12%, and are callable at the end of every fifth year from issue date.

## SUKUK FINANCING NOTES

The Sukuk carries an expected profit rate of 4.07% per annum payable semi-annually (Note 22).

## BILATERAL LOANS

Monthly coupons with 60 to 85 basis points over LIBOR.

## SUBORDINATED NOTES:

### Subordinated floating rate notes

Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 110 basis points over 3-month LIBOR. The subordinated floating rate notes qualify as Tier 2 subordinated loan capital for the first five-year period till 2011 and thereafter are amortised at the rate of 20% per annum until 2016 for capital adequacy calculation (Note 50). This has been approved by the Central Bank of the UAE. These notes are classified within a one-year bucket, as these are callable at the option of the issuer and the option has been exercised in 2015.

### Subordinated fixed rate notes

Interest on the subordinated fixed rate notes is payable half-yearly in arrears and the contractual coupon rates as at 31 December 2014 are as follows:

| Currency | Over 5 years |
|---|---|
| USD | Fixed rate 3.125% to 4.5% p.a. |
| CHF | Fixed rate 1.885% p.a. |

The subordinated fixed rate notes qualify as Tier 2 subordinated loan capital for the first five-year period till 2018 and thereafter are amortised at the rate of 20% per annum until 2023 for capital adequacy calculation (Note 50). This has been approved by the Central Bank of the UAE. Subordinated notes of AED 1,477,464 thousand mature in 2023 but are callable after five years from the issuance date at the option of the Bank.

## BORROWINGS THROUGH REPURCHASE AGREEMENTS

Fixed rate ranging from 0.33% to 0.75 % p.a.

## 19 OTHER LIABILITIES

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Interest payable | **368,254** | 398,931 |
| Recognised liability for defined benefit obligations | **334,872** | 256,102 |
| Accounts payable and other creditors | **248,441** | 189,724 |
| Clearing payables | **2,288** | 131 |
| Deferred income | **566,150** | 445,561 |
| Acceptances (Note 12) | **2,906,420** | 2,140,725 |
| Others | **1,378,487** | 1,479,743 |
| **Total other liabilities** | **5,804,912** | 4,910,917 |

### DEFINED BENEFIT OBLIGATIONS

The Bank provides gratuity benefits to its eligible employees in the UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2014 by a registered actuary in the UAE. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The movement in defined benefit obligations is as follows:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Opening balance | **256,102** | 213,631 |
| Net charge during the year | **69,935** | 57,214 |
| Actuarial losses on defined benefit liability | **25,887** | – |
| Benefits paid | **(17,052)** | (14,743) |
| **Closing balance** | **334,872** | 256,102 |

### DEFINED BENEFIT CONTRIBUTION

The Bank also pays contributions to the Abu Dhabi Retirement Pensions and Benefits Fund in respect of its UAE and GCC national employees treated as defined contribution plans. The charge for the year in respect of these contributions is AED 26,611 thousand (2013 — AED 22,746 thousand). As at 31 December 2014, pension payable of AED 5,023 thousand has been classified under other liabilities — others (31 December 2013 — AED 4,106 thousand).

## 20 SHARE CAPITAL

| | | Issued and fully paid | |
|---|---|---|---|
| | **Authorised AED'000** | **2014 AED'000** | 2013 AED'000 |
| Ordinary shares of AED 1 each | **5,595,597** | **5,595,597** | 5,595,597 |

As at 31 December 2014, Abu Dhabi Investment Council held 58.083% (31 December 2013 — 58.083%) of the Bank's issued and fully paid-up share capital.

### TREASURY SHARES

During the year, the Bank bought back from certain shareholders 2,011,108 (2013 — 392,741,711) ordinary shares at a total cash consideration of AED 11,691 thousand — these shares are held as Treasury shares as at 31 December 2014 (Note 21) and are expected to be cancelled eventually. This buyback programme of up to 10% of the Bank's shares was approved by the Securities & Commodities Authority, Central Bank of the UAE and the Bank's shareholders. The approval has been extended until 3 February 2015.

### DIVIDENDS

For the year ended 31 December 2014, the Board of Directors have proposed to pay cash dividends of AED 2,080,338 thousand, being AED 0.40 dividends per share and representing 40% of the paid-up capital net of shares bought back (31 December 2013 — AED 1,560,857 thousand, being AED 0.30 dividends per share and representing 30% of the paid-up capital net of shares bought back). This is subject to the approval of the shareholders in the Annual General Meeting.

## 21 OTHER RESERVES, NET OF TREASURY SHARES

Reserves movement for the year ended 31 December 2014:

| | Treasury shares AED'000 | Employees' incentive plan shares, net AED'000 | Statutory reserve AED'000 |
|---|---|---|---|
| **Balance at 1 January 2014** | **(1,818,969)** | **(57,438)** | **2,287,181** |
| Exchange difference arising on translation of foreign operations | – | – | – |
| Fair value changes on cash flow hedges | – | – | – |
| Fair value changes on available-for-sale investments | – | – | – |
| **Total other comprehensive loss for the year** | – | – | – |
| Shares purchased | – | **(31,459)** | – |
| Fair value and other adjustments | – | **(6,511)** | – |
| Shares — vested portion (Note 23) | – | **29,309** | – |
| Share buyback (Note 20) | **(11,691)** | – | – |
| Net movement in Treasury shares on disposal of Fund subsidiaries (Note 51) | **22,012** | – | – |
| Transfer from retained earnings (Note 50) | – | – | **404,973** |
| **Balance at 31 December 2014** | **(1,808,648)** | **(66,099)** | **2,692,154** |
| **Balance at 1 January 2013** | (30,937) | (96,256) | 1,950,650 |
| Exchange difference arising on translation of foreign operations | – | – | – |
| Fair value changes on cash flow hedges | – | – | – |
| Fair value changes on available-for-sale investments | – | – | – |
| **Total other comprehensive (loss)/profit for the year** | – | – | – |
| Shares granted | – | (630) | – |
| Shares — vested portion (Note 23) | – | 39,448 | – |
| Share buyback (Note 20) | (1,796,957) | – | – |
| Net movement in Treasury shares held by Fund subsidiaries | 8,925 | – | – |
| Transfer from retained earnings (Note 50) | – | – | 336,531 |
| **Balance at 31 December 2013** | (1,818,969) | (57,438) | 2,287,181 |

For more information on reserves refer to Note 50.

| | Legal reserve AED'000 | General reserve AED'000 | Contingency reserve AED'000 | Foreign currency translation reserve AED'000 | Hedge reserve AED'000 | Cumulative changes in fair values AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| | **2,242,394** | **2,000,000** | **150,000** | **(59,686)** | **40,800** | **351,158** | **5,135,440** |
| | – | – | – | (3,699) | – | – | (3,699) |
| | – | – | – | – | (52,083) | – | (52,083) |
| | – | – | – | – | – | (99,466) | (99,466) |
| | – | – | – | (3,699) | (52,083) | (99,466) | (155,248) |
| | – | – | – | – | – | – | (31,459) |
| | – | – | – | – | – | – | (6,511) |
| | – | – | – | – | – | – | 29,309 |
| | – | – | – | – | – | – | (11,691) |
| | – | – | – | – | – | – | 22,012 |
| | 404,973 | – | – | – | – | – | 809,946 |
| | **2,647,367** | **2,000,000** | **150,000** | **(63,385)** | **(11,283)** | **251,692** | **5,791,798** |
| | 1,905,863 | 2,000,000 | 150,000 | (34,333) | 26,756 | 416,848 | 6,288,591 |
| | – | – | – | (25,353) | – | – | (25,353) |
| | – | – | – | – | 14,044 | – | 14,044 |
| | – | – | – | – | – | (65,690) | (65,690) |
| | – | – | – | (25,353) | 14,044 | (65,690) | (76,999) |
| | – | – | – | – | – | – | (630) |
| | – | – | – | – | – | – | 39,448 |
| | – | – | – | – | – | – | (1,796,957) |
| | – | – | – | – | – | – | 8,925 |
| | 336,531 | – | – | – | – | – | 673,062 |
| | 2,242,394 | 2,000,000 | 150,000 | (59,686) | 40,800 | 351,158 | 5,135,440 |

## 22 ISLAMIC FINANCING

**Islamic financing assets**

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Murabaha | **2,299,930** | 1,038,429 |
| Ijara financing | **4,170,654** | 5,594,710 |
| Mudaraba | **138,534** | 463,049 |
| Salam | **4,420,019** | 3,476,441 |
| Others | **126,776** | 93,998 |
| **Gross Islamic financing assets** | **11,155,913** | 10,666,627 |
| Less: Allowance for impairment | **(143,219)** | (102,384) |
| **Net Islamic financing assets** | **11,012,694** | 10,564,243 |

**Gross Ijara and related present value of the minimum Ijara payments**

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Less than one year | **539,238** | 1,045,887 |
| Between one year and five years | **2,323,031** | 3,412,029 |
| More than five years | **2,839,809** | 2,669,126 |
| **Gross Ijara** | **5,702,078** | 7,127,042 |
| Less: Deferred income | **(1,531,424)** | (1,532,332) |
| **Net Ijara** | **4,170,654** | 5,594,710 |
| **Net present value** | | |
| Less than one year | **291,323** | 778,304 |
| Between one year and five years | **1,608,619** | 2,719,904 |
| More than five years | **2,270,712** | 2,096,502 |
| **Total net present value** | **4,170,654** | 5,594,710 |

**Income from Islamic financing**

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Murabaha | **69,744** | 54,354 |
| Ijara financing | **219,694** | 254,502 |
| Mudaraba | **13,753** | 20,999 |
| Salam | **308,424** | 263,573 |
| Others | **5,818** | 3,390 |
| **Total income from Islamic financing** | **617,433** | 596,818 |

**Islamic deposits**

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Current account deposits | **2,543,875** | 2,139,789 |
| Margin deposits | **13,281** | 9,247 |
| Mudaraba savings deposits | **4,198,219** | 3,270,613 |
| Mudaraba term deposits | **1,374,575** | 1,528,311 |
| Wakala deposits | **1,249,479** | 1,224,052 |
| **Total Islamic deposits** | **9,379,429** | 8,172,012 |

**Islamic profit distribution**

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Mudaraba savings and term deposits | **44,042** | 47,740 |
| Wakala deposits | **14,780** | 34,018 |
| Sukuk | **53,274** | 54,230 |
| **Total Islamic profit distribution** | **112,096** | 135,988 |

In November 2011, ADCB through its subsidiary ADCB Islamic Finance (Cayman) Limited (Sukuk company) issued a shari'ah-compliant financing arrangement — Sukuk amounting to USD 500,000 thousand (AED 1,836,500 thousand). The Sukuk carries an expected profit rate of 4.07% per annum payable semi-annually and is due to mature in November 2016. The sukuk is listed on the London Stock Exchange.

## 23 EMPLOYEES' INCENTIVE PLAN SHARES, NET

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

For the year ended 31 December 2014, the Bank had three incentive plans in force as described below:

| | 1 January 2014 | 1 January 2014 | 1 January 2013 |
|---|---|---|---|
| Number of shares granted | 1,665,000 | 3,551,883 | 6,738,937 |
| Fair value of the granted shares at the grant date in AED thousand | 10,823 | 23,087 | 20,284 |
| Vesting date | 31 December 2017 | 31 December 2016 | 31 December 2015 |

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

The movement of plan shares is as follows:

| | 2014 | 2013 |
|---|---|---|
| Opening balance | **9,055,462** | 41,080,821 |
| Shares granted during the year | **5,216,883** | 6,738,937 |
| Exercised during the year | **(7,852,213)** | (38,287,554) |
| Forfeited during the year | **(332,975)** | (476,742) |
| Closing balance | **6,087,157** | 9,055,462 |
| Amount of "Plan" cost recognised in the consolidated statement of income (AED '000) | **29,309** | 39,448 |

Total number of plan shares forfeited and that remained un-allotted as at 31 December 2014 were 1,505,950 shares (31 December 2013 — 6,389,858 shares). The Bank's Nomination, Compensation & HR Committee's intention is to include these shares in the next incentive plan scheme. Further, 4,475,013 shares have been purchased as at 31 December 2014 for future plan.

## 24 CAPITAL NOTES

In February 2009, the Department of Finance, Government of Abu Dhabi, subscribed to ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank. 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 events") 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 stipulates a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

## 25 INTEREST INCOME

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Loans and advances to banks | **205,025** | 172,627 |
| Loans and advances to customers | **5,655,249** | 5,873,912 |
| Investment securities | **507,681** | 473,418 |
| **Total interest income** | **6,367,955** | 6,519,957 |

## 26 INTEREST EXPENSE

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Deposits from banks | **7,595** | 20,943 |
| Deposits from customers and euro commercial paper | **795,292** | 967,686 |
| Borrowings | **485,896** | 562,976 |
| **Total interest expense** | **1,288,783** | 1,551,605 |

## 27 NET FEES AND COMMISSION INCOME

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| **Fees and commission income** | | |
| Retail banking fees | **858,126** | 747,303 |
| Corporate banking fees | **502,584** | 389,061 |
| Brokerage fees | **40,328** | 15,528 |
| Fees from trust and other fiduciary activities | **119,792** | 99,370 |
| Other fees | **47,942** | 37,078 |
| **Total fees and commission income** | **1,568,772** | 1,288,340 |
| Fees and commission expenses | **(325,824)** | (295,804) |
| **Net fees and commission income** | **1,242,948** | 992,536 |

## 28 NET TRADING INCOME

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Net gains on dealing in derivatives | **23,958** | 45,843 |
| Net gains from dealing in foreign currencies | **284,959** | 184,268 |
| Net gains from trading securities | **98,071** | 307,282 |
| **Net trading income** | **406,988** | 537,393 |

## 29 OTHER OPERATING INCOME

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Gains arising from retirement of hedges | **–** | 100,284 |
| Net gains from available-for-sale investments | **22,201** | 32,911 |
| Property management income | **138,791** | 127,284 |
| Rental income | **65,971** | 30,477 |
| Income from retirement of long-term debt | **–** | 21,669 |
| Dividend income | **26,513** | 36,354 |
| Others | **19,147** | 11,529 |
| **Total other operating income** | **272,623** | 360,508 |

## 30 OPERATING EXPENSES

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Staff expenses | **1,464,359** | 1,353,694 |
| Depreciation (Note 13) | **132,008** | 127,222 |
| Amortisation of intangible assets (Note 14) | **25,990** | 30,431 |
| Others | **940,703** | 846,839 |
| **Total operating expenses** | **2,563,060** | 2,358,186 |

## 31 IMPAIRMENT ALLOWANCES

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Impairment allowance on loans and advances, net (Note 41.6) | **811,199** | 1,366,156 |
| Net impairment recoveries on available-for-sale investments | **(48,952)** | (31,858) |
| **Total impairment allowances** | **762,247** | 1,334,298 |

## 32 EARNINGS PER SHARE

### BASIC AND DILUTED EARNINGS PER SHARE

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

| | 2014<br>AED'000 | 2013<br>AED'000 |
|---|---|---|
| Net profit for the year attributable to the equity holders of the Bank | 4,049,731 | 3,365,309 |
| Less: Coupon paid on capital notes | (186,393) | (240,000) |
| **Net adjusted profit for the year attributable to the equity holders of the Bank (a)** | **3,863,338** | 3,125,309 |

| | Number of shares in thousands | |
|---|---|---|
| Weighted average number of shares in issue throughout the year | 5,595,597 | 5,595,597 |
| Less: Weighted average number of Treasury shares arising on buyback | (392,797) | (219,093) |
| Less: Weighted average number of Treasury shares arising on consolidation of Funds | (1,849) | (7,916) |
| Less: Weighted average number of shares resulting from Employees' incentive plan shares | (14,030) | (27,256) |
| **Weighted average number of equity shares in issue during the year for basic earnings per share (b)** | **5,186,921** | 5,341,332 |
| Add: Weighted average number of Treasury shares arising on consolidation of Funds | 1,849 | 7,916 |
| Add: Weighted average number of shares resulting from employees' incentive plan shares | 14,030 | 27,256 |
| **Weighted average number of equity shares in issue during the year for diluted earnings per share (c)** | **5,202,800** | 5,376,504 |
| **Basic earnings per share (AED) (a)/(b)** | **0.74** | 0.59 |
| **Diluted earnings per share (AED) (a)/(c)** | **0.74** | 0.58 |

## 33 OPERATING LEASE

### BANK AS LESSEE

**Leasing arrangements**

Operating leases relate mainly to leases of branch premises and ATMs of the Bank with lease terms between one and three years. The Bank does not have an option to purchase the leased premises at the expiry of the lease periods.

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| **Payments recognised as an expense** | | |
| Minimum lease payments | **64,080** | 60,809 |
| **Non-cancellable operating lease commitments** | | |
| Not later than one year | **54,051** | 47,624 |
| Later than one year but not later than five years | **38,151** | 41,830 |
| **Total non-cancellable operating lease commitments** | **92,202** | 89,454 |

### BANK AS LESSOR

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

Rental incomes earned by the Bank from its investment properties and direct operating expenses arising on the investment properties for the year are set out in Note 11.

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| **Non-cancellable operating lease receivables:** | | |
| Not later than one year | **25,943** | 28,216 |
| Later than one year | **43,952** | 3,750 |

## 34 CASH AND CASH EQUIVALENTS

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

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Cash and balances with central banks | **15,092,192** | 9,961,206 |
| Deposits and balances due from banks | **16,019,461** | 11,344,700 |
| Due to banks | **(4,089,019)** | (4,291,011) |
| | **27,022,634** | 17,014,895 |
| Less: Cash and balances with central banks and deposits and balances due from banks — with original maturity of more than three months | **(12,095,955)** | (7,245,757) |
| Add: Due to banks — with original maturity of more than three months | **93,827** | 28,803 |
| **Total cash and cash equivalents** | **15,020,506** | 9,797,941 |

## 35 RELATED-PARTY TRANSACTIONS

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

Key Management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of ADCB, 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 holds 58.083% (31 December 2013 — 58.083%) of the Bank's issued and fully paid-up share capital (Note 20). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006, and so the ultimate controlling party is the Government of Abu Dhabi.

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

| | Ultimate controlling party and its related parties AED'000 | Directors and related parties AED'000 | Key managers AED'000 | Associate AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| **Balances** | | | | | |
| Deposits and balances due from banks | **3,885,550** | **–** | **–** | **–** | **3,885,550** |
| Trading securities | **37,393** | **–** | **–** | **–** | **37,393** |
| Derivative financial instruments — assets | **1,699,305** | **–** | **–** | **–** | **1,699,305** |
| Investment securities | **3,537,875** | **–** | **–** | **–** | **3,537,875** |
| Loans & advances, net | **18,175,112** | **160,825** | **35,335** | **397,644** | **18,768,916** |
| Other assets | **481,349** | **1,413** | **191** | **104** | **483,057** |
| Derivative financial instruments — liabilities | **896,649** | **–** | **–** | **–** | **896,649** |
| Deposits from customers | **25,118,497** | **121,837** | **35,249** | **37,106** | **25,312,689** |
| Other liabilities | **23,976** | **540** | **–** | **–** | **24,516** |
| Capital notes | **4,000,000** | **–** | **–** | **–** | **4,000,000** |
| Commitments and contingent liabilities | **6,895,317** | **121,637** | **300** | **919** | **7,018,173** |
| **Transactions** | | | | | |
| Interest, fees and other income | **397,223** | **9,091** | **1,192** | **28,540** | **436,046** |
| Interest expense | **269,554** | **90** | **111** | **–** | **269,755** |
| Derivative income | **528,562** | **–** | **–** | **–** | **528,562** |
| Coupon paid on capital notes | **186,393** | **–** | **–** | **–** | **186,393** |
| **31 December 2013** | | | | | |
| **Balances** | | | | | |
| Deposits and balances due from banks | 751,759 | – | – | – | 751,759 |
| Trading securities | 22,967 | – | – | – | 22,967 |
| Derivative financial instruments — assets | 1,241,534 | 2,564 | – | – | 1,244,098 |
| Investment securities | 5,177,907 | – | – | – | 5,177,907 |
| Loans & advances, net | 21,047,813 | 388,792 | 39,533 | 593,498 | 22,069,636 |
| Other assets | 256,107 | 6,511 | 25 | 80 | 262,723 |
| Due to banks | 370,380 | – | – | – | 370,380 |
| Derivative financial instruments — liabilities | 340,943 | – | – | – | 340,943 |
| Deposits from customers | 38,434,766 | 138,424 | 23,447 | 3,709 | 38,600,346 |
| Other liabilities | 188,655 | 678 | – | – | 189,333 |
| Capital notes | 4,000,000 | – | – | – | 4,000,000 |
| Commitments and contingent liabilities | 1,780,488 | 84,970 | 2,681 | 919 | 1,869,058 |
| **Transactions** | | | | | |
| Interest, fees and other income | 901,526 | 20,817 | 1,267 | 30,858 | 954,468 |
| Interest expense | 316,948 | 227 | 156 | – | 317,331 |
| Derivative (expense)/income | (312,219) | 753 | – | – | (311,466) |
| Interest expense on Tier 2 loan | 91,958 | – | – | – | 91,958 |
| Coupon paid on capital notes | 240,000 | – | – | – | 240,000 |

As at 31 December 2014, funds under management held 5,469,873 shares (31 December 2013: 7,372,506 shares) of the Bank. During the year, the Bank paid dividend of AED 2,270 thousand (2013: AED 2,015 thousand) on these shares.

Remuneration of Key Management employees and Board of Directors fees and expenses during the year are as follows:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Short-term benefits | **25,995** | 24,956 |
| Termination benefits | **2,657** | 2,100 |
| Variable pay benefits | **30,450** | 25,262 |
| | **59,102** | 52,318 |
| Board of Directors fees and expenses | **7,556** | 12,481 |

In addition to the above, the Key Management personnel were granted long-term deferred compensation including share-based payments of AED 25,425 thousand (2013 — AED 22,238 thousand).

## 36 COMMITMENTS AND CONTINGENT LIABILITIES

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

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Letters of credit | **6,411,361** | 8,677,520 |
| Guarantees | **17,418,872** | 14,249,313 |
| Commitments to extend credit — revocable (*) | **10,809,547** | 8,293,471 |
| Commitments to extend credit — irrevocable | **12,687,831** | 3,262,963 |
| **Total commitments on behalf of customers** | **47,327,611** | 34,483,267 |
| Commitments for future capital expenditure | **137,736** | 189,007 |
| Commitments to invest in investment securities | **71,750** | 132,185 |
| **Total commitments and contingent liabilities** | **47,537,097** | 34,804,459 |

(*) includes AED 6,276,388 thousand (31 December 2013: AED 5,209,250 thousand) for undrawn credit card limits.

### CREDIT-RELATED COMMITMENTS

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

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

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

## 37 OPERATING SEGMENTS

The Bank has four reportable segments as described below. These segments offer different products and services and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic divisions, the Bank's Performance Management Committee reviews internal management reports on a monthly basis.

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

| | |
|---|---|
| Consumer Banking | comprises retail, wealth management and Islamic financing. 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 business banking, cash management, trade finance, corporate finance, small and medium-size enterprise financing, investment banking, Indian operations, Islamic financing, infrastructure and asset finance, government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers. |
| Investments & Treasury | comprises central Treasury operations, management of the Bank's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments & Treasury undertakes the Bank's funding and centralized 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 real estate management and engineering service operations of subsidiaries — Abu Dhabi Commercial Properties LLC, Abu Dhabi Commercial Engineering Services LLC, and rental income of ADCB. |

Information regarding the results of each reportable segment is included 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 Bank's revenue and results by operating segment for the year ended:

| | Consumer Banking AED'000 | Wholesale Banking AED'000 | Investments & Treasury AED'000 | Property Management AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Net interest and Islamic financing income | 2,296,639 | 1,390,207 | 1,788,902 | 108,761 | 5,584,509 |
| Non-interest income | 921,817 | 596,609 | 181,989 | 244,474 | 1,944,889 |
| Operating expenses | (1,577,370) | (685,952) | (198,366) | (101,372) | (2,563,060) |
| **Operating profit before impairment allowances** | 1,641,086 | 1,300,864 | 1,772,525 | 251,863 | 4,966,338 |
| Impairment (allowances)/recoveries | (663,024) | (148,175) | 48,952 | – | (762,247) |
| **Profit before taxation** | 978,062 | 1,152,689 | 1,821,477 | 251,863 | 4,204,091 |
| Overseas income tax expense | – | (2,707) | – | – | (2,707) |
| **Net profit for the year** | 978,062 | 1,149,982 | 1,821,477 | 251,863 | 4,201,384 |
| Capital expenditure | | | | | 144,965 |
| **31 December 2014** | | | | | |
| Segment assets | 63,216,688 | 83,717,761 | 56,460,659 | 624,355 | 204,019,463 |
| Segment liabilities | 37,316,795 | 51,210,978 | 89,055,962 | 16,895 | 177,600,630 |
| **2013** | | | | | |
| Net interest and Islamic financing income | 2,138,406 | 1,464,898 | 1,705,380 | 120,498 | 5,429,182 |
| Non-interest income | 914,341 | 459,774 | 347,800 | 168,522 | 1,890,437 |
| Operating expenses | (1,420,232) | (632,984) | (205,489) | (99,481) | (2,358,186) |
| **Operating profit before impairment allowances** | 1,632,515 | 1,291,688 | 1,847,691 | 189,539 | 4,961,433 |
| Impairment (allowances)/recoveries | (1,062,858) | (291,508) | 20,068 | – | (1,334,298) |
| **Profit before taxation** | 569,657 | 1,000,180 | 1,867,759 | 189,539 | 3,627,135 |
| Overseas income tax expense | – | (7,491) | – | – | (7,491) |
| **Net profit for the year** | 569,657 | 992,689 | 1,867,759 | 189,539 | 3,619,644 |
| Capital expenditure | | | | | 99,846 |
| **31 December 2013** | | | | | |
| Segment assets | 61,382,901 | 76,113,146 | 45,078,609 | 567,880 | 183,142,536 |
| Segment liabilities | 32,165,627 | 43,746,149 | 82,370,825 | 38,625 | 158,321,226 |

## OTHER DISCLOSURES

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

| | External | | Inter-segment | |
|---|---|---|---|---|
| | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 |
| Consumer Banking | **4,333,210** | 4,292,674 | **(1,114,754)** | (1,239,927) |
| Wholesale Banking | **3,029,740** | 3,019,561 | **(1,042,924)** | (1,094,889) |
| Investments & Treasury | **(78,026)** | (161,138) | **2,048,917** | 2,214,318 |
| Property Management | **244,474** | 168,522 | **108,761** | 120,498 |
| Total | **7,529,398** | 7,319,619 | **–** | – |

## GEOGRAPHICAL INFORMATION

The Bank operates in two principal geographic areas, i.e. Domestic and International. The United Arab Emirates is designated as the domestic area which represents the operations of the Bank that originates from the UAE branches and subsidiaries; and the international area represents the operations of the Bank that originates from its branches in India, Jersey and through its subsidiaries outside the UAE. The Bank's operations and information about its segment non-current financial assets by geographical location are detailed as follows:

| | Domestic | | International | |
|---|---|---|---|---|
| | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 |
| **Income** | | | | |
| Net interest and Islamic financing income | **5,549,268** | 5,400,539 | **35,241** | 28,643 |
| Non-interest income | **1,765,743** | 1,887,635 | **179,146** | 2,802 |
| **Non-current assets** | | | | |
| Investment properties | **615,778** | 560,690 | **–** | – |
| Property and equipment, net | **801,746** | 801,295 | **4,442** | 4,027 |
| Intangible assets | **35,705** | 61,695 | **–** | – |

## 38 FINANCIAL INSTRUMENTS

### CATEGORIES OF FINANCIAL INSTRUMENTS

The following table analyses the Bank's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

| | Held-for-trading AED'000 | Hedging derivatives AED'000 | Available-for-sale AED'000 | Amortised cost AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | – | – | – | 15,092,192 | 15,092,192 |
| Deposits and balances due from banks | – | – | – | 16,019,461 | 16,019,461 |
| Trading securities | 199,599 | – | – | – | 199,599 |
| Derivative financial instruments | 4,045,205 | 243,301 | – | – | 4,288,506 |
| Investment securities | – | – | 21,651,838 | – | 21,651,838 |
| Loans and advances, net | – | – | – | 140,562,498 | 140,562,498 |
| Other assets | – | – | – | 4,486,014 | 4,486,014 |
| **Total financial assets** | 4,244,804 | 243,301 | 21,651,838 | 176,160,165 | 202,300,108 |
| **Liabilities** | | | | | |
| Due to banks | – | – | – | 4,089,019 | 4,089,019 |
| Derivative financial instruments | 4,041,821 | 958,246 | – | – | 5,000,067 |
| Deposits from customers | – | – | – | 126,011,227 | 126,011,227 |
| Euro commercial paper | – | – | – | 6,375,284 | 6,375,284 |
| Borrowings | – | – | – | 30,320,121 | 30,320,121 |
| Other liabilities | – | – | – | 5,238,762 | 5,238,762 |
| **Total financial liabilities** | 4,041,821 | 958,246 | – | 172,034,413 | 177,034,480 |
| **31 December 2013** | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | – | – | – | 9,961,206 | 9,961,206 |
| Deposits and balances due from banks | – | – | – | 11,344,700 | 11,344,700 |
| Trading securities | 884,640 | – | – | – | 884,640 |
| Derivative financial instruments | 3,141,800 | 474,403 | – | – | 3,616,203 |
| Investment securities | – | – | 20,854,772 | – | 20,854,772 |
| Loans and advances, net | – | – | – | 131,648,670 | 131,648,670 |
| Other assets | – | – | – | 3,365,653 | 3,365,653 |
| **Total financial assets** | 4,026,440 | 474,403 | 20,854,772 | 156,320,229 | 181,675,844 |
| **Liabilities** | | | | | |
| Due to banks | – | – | – | 4,291,011 | 4,291,011 |
| Derivative financial instruments | 3,157,645 | 807,942 | – | – | 3,965,587 |
| Deposits from customers | – | – | – | 115,427,708 | 115,427,708 |
| Euro commercial paper | – | – | – | 5,940,435 | 5,940,435 |
| Borrowings | – | – | – | 23,785,568 | 23,785,568 |
| Other liabilities | – | – | – | 4,465,356 | 4,465,356 |
| **Total financial liabilities** | 3,157,645 | 807,942 | – | 153,910,078 | 157,875,665 |

## 39 FAIR VALUE HIERARCHY

### FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

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

### QUOTED MARKET PRICES — LEVEL 1

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

### VALUATION TECHNIQUES USING OBSERVABLE INPUTS — LEVEL 2

Financial instruments and investment properties classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs includes 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 certain OTC derivatives, commodity derivatives, foreign exchange spot and forward contracts.

These instruments are valued using the inputs observable in an active market. Valuation of the derivative financial instruments is made through discounted cash flow method using the applicable yield curve for the duration of the instruments for non-optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for optional derivatives.

Level 2 investment properties are buildings given on rent. Refer to Note 11 in respect of the valuation techniques used.

### VALUATION TECHNIQUES USING SIGNIFICANT UNOBSERVABLE INPUTS — LEVEL 3

Financial instruments 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.

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

a) Private equity instruments — using the latest available net book value; and

b) Private funds — based on the net asset value provided by the fund manager.

### OTHER ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

The majority of the Bank's assets and liabilities measured at amortised cost, including loans and advances and deposits from customers, are Level 3 assets and liabilities as there is no active market for such assets and liabilities. The Bank considers these to have a fair value approximately equivalent to their net carrying value based on discounted cash flow calculations performed for a sample of loans, the majority of which carry variable interest rates, and given the relatively short tenor of most deposits from customers.

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

The table below analyses recurring fair value measurements for assets and liabilities.

| | Notes | Level 1<br>Quoted market prices<br>AED'000 | Level 2<br>Observable inputs<br>AED'000 | Level 3<br>Significant unobservable inputs<br>AED'000 | Total<br>AED'000 |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| **Assets at fair value** | | | | | |
| Trading securities | **7** | **199,599** | **–** | **–** | **199,599** |
| Derivative financial instruments | **8** | **2,536** | **4,285,970** | **–** | **4,288,506** |
| Investment securities | **9** | | | | |
| Quoted | | **19,384,244** | **935,205** | **–** | **20,319,449** |
| Unquoted | | **–** | **954,173** | **378,216** | **1,332,389** |
| Investment properties | **11** | **–** | **615,778** | **–** | **615,778** |
| **Total assets at fair value** | | **19,586,379** | **6,791,126** | **378,216** | **26,755,721** |
| **Liabilities at fair value** | | | | | |
| Derivative financial instruments | **8** | **146** | **4,999,921** | **–** | **5,000,067** |
| **Total liabilities at fair value** | | **146** | **4,999,921** | **–** | **5,000,067** |
| **31 December 2013** | | | | | |
| **Assets at fair value** | | | | | |
| Trading securities | 7 | 884,640 | – | – | 884,640 |
| Derivative financial instruments | 8 | 1,767 | 3,614,436 | – | 3,616,203 |
| Investment securities | 9 | | | | |
| Quoted | | 20,480,037 | – | – | 20,480,037 |
| Unquoted | | – | 58,147 | 316,588 | 374,735 |
| Investment properties | 11 | – | 560,690 | – | 560,690 |
| **Total assets at fair value** | | 21,366,444 | 4,233,273 | 316,588 | 25,916,305 |
| **Liabilities at fair value** | | | | | |
| Derivative financial instruments | 8 | – | 3,965,587 | – | 3,965,587 |
| **Total liabilities at fair value** | | – | 3,965,587 | – | 3,965,587 |

The Bank's OTC derivatives in the Trading Book are classified as Level 2, as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 available-for-sale investments is as follows:

| | **2014<br>AED'000** | 2013<br>AED'000 |
|---|---|---|
| Opening balance | **316,588** | 278,436 |
| Purchases, net | **60,494** | 49,217 |
| Disposals including capital refunds | **(24,950)** | (9,726) |
| Adjustment through comprehensive income | **26,845** | (2,502) |
| Transfer (from)/to | **(761)** | 1,163 |
| **Closing balance** | **378,216** | 316,588 |

Net gain of AED 20,429 thousand (2013: net loss of AED 1,903 thousand) on disposal of Level 3 investments was included under other operating income in the consolidated income statement (Note 29).

There were no significant transfers between Level 1 and Level 2 from the year 2013 to 2014.

There was no change in valuation techniques during the year.

### UNCONSOLIDATED STRUCTURED ENTITY:

Level 1 financial instruments include the Bank's investments in Al Nokhitha Fund, ADCB MSCI UAE Index Fund and ADCB Arabian Index Fund (the "Funds"). These Funds were de-consolidated with effect from 31 March 2014 due to loss of control (Note 51). The total carrying value of investments in these Funds as at 31 December 2014 was AED 165,835 thousand. The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 50,030 thousand, out of which AED 35,632 thousand was utilised and outstanding as at 31 December 2014. The maximum exposure to loss in these Funds is equal to the carrying value of the investments and credit risk carried in the facilities extended.

## 40 RISK MANAGEMENT

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

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

The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership for the enforcement of risk strategy and internal control directives laid down by the Board and Board Committees.

The management-level committees also actively manage risk, particularly the Assets & Liabilities Committee; the Management Risk & Credit Committee (MRCC); and the Management Recoveries Committee. The Risk Management function headed by the Bank's Chief Risk Officer reports independently to the Board Risk & Credit Committee. The Risk function is independent of the Origination, Trading and Sales function to ensure that balance in risk-reward decisions is not compromised and to ensure transparency of decisions in accordance with laid-down standards and policies. The Risk function exercises control over credit, market, short-term liquidity, operational and compliance risk.

The Board Audit & Compliance Committee provides assistance to the Board to fulfil its duties to ensure and oversee the Bank's financial statements, independence and performance of the Bank's external and internal auditors, compliance with legal and regulatory requirements, and internal policies and internal control over financial reporting.

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

## 41 CREDIT RISK MANAGEMENT

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation.

The Bank's Risk function follows the approaches listed below for credit risk management, depending on the type of customer.

Individual account management – These accounts are managed by a relationship manager and a credit manager. This category includes customers of Wholesale Banking and financial institutions. Risk management is conducted through expert analysis backed up by tools to support decision making based on internal models of risk assessment.

Portfolio management – This category generally includes individuals, sole proprietorships and partnerships and certain smaller SMEs. Management of these risks is based on internal models of assessment and Scorecard–based decisions complemented by internal portfolio analytics.

The Bank controls credit risk by aggregating and monitoring credit exposures (both direct and indirect exposures) on the loans and advances, investment securities, non-funded exposures and due from banks. The Bank sets transaction limits for specific counterparties and continually assesses the creditworthiness of counterparties. The Bank sets and monitors country, industry, product and tenor risks and uses its own internal rating models for assigning customer ratings which measure the degree of risk of a customer. Each rating corresponds to a certain probability of default. The Bank has various internal rating models for different customer segments.

In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Bank-wide credit policies and standards are approved by the BRCC. These govern all delegated lending authorities and include policies, standards, metrics, strategies and procedures specific to each of the different business segments and are decided based on macroeconomic conditions, the risk appetite of the Bank, market data, and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Bank's interest in changing operating conditions. In addition to Bank-wide policies, there are underwriting standards set for each portfolio segment.

### 41.1 ANALYSIS OF MAXIMUM EXPOSURE TO CREDIT RISK BEFORE CREDIT RISK MITIGANTS

The following table presents the maximum exposure of credit risk as at 31 December 2014 and 2013 consolidated statements of financial position and off-balance-sheet financial instruments, before taking account of any credit risk mitigants and after allowance for impairment and netting where appropriate.

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

The analysis of credit risk under this section includes only financial assets subject to credit risk. They exclude other financial assets such as trading portfolio which are exposed to market risk. The nominal value of off-balance-sheet credit-related instruments is also shown, where appropriate.

Whilst the Bank's maximum exposure to credit risk is the carrying value of the assets or, in the case of off-balance-sheet items, the amount guaranteed, committed, or endorsed, in most cases the likely exposure is far less due to collateral held, and other credit risk mitigants and other actions taken to manage the Bank's exposure.

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Carrying value AED'000 | Off-balance-sheet items AED'000 | Maximum credit risk exposure AED'000 | Carrying value AED'000 | Off-balance-sheet items AED'000 | Maximum credit risk exposure AED'000 |
| Deposits and balances due from banks | 16,019,461 | – | 16,019,461 | 11,344,700 | – | 11,344,700 |
| Derivative financial instruments | 4,288,506 | – | 4,288,506 | 3,616,203 | – | 3,616,203 |
| Investment securities | 21,651,838 | 71,750 | 21,723,588 | 20,854,772 | 132,185 | 20,986,957 |
| Loans and advances, net | 140,562,498 | – | 140,562,498 | 131,648,670 | – | 131,648,670 |
| Other assets | 4,551,844 | – | 4,464,055 | 3,404,638 | – | 3,286,050 |
| Letters of credit | – | 6,411,361 | 6,411,361 | – | 8,677,520 | 8,677,520 |
| Guarantees | – | 17,418,872 | 17,418,872 | – | 14,249,313 | 14,249,313 |
| Commitments to extend credit — irrevocable | – | 12,687,831 | 12,687,831 | – | 3,262,963 | 3,262,963 |
| Total | 187,074,147 | 36,589,814 | 223,576,172 | 170,868,983 | 26,321,981 | 197,072,376 |

## 41.2 CONCENTRATION OF CREDIT RISK

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

**(a) Credit risk concentration by geographical sector**

| | Domestic (UAE) AED'000 | Other GCC countries AED'000 | Other Arab countries AED'000 | Asia AED'000 | Europe AED'000 | USA AED'000 | Rest of the world AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|
| 31 December 2014 | | | | | | | | |
| Assets | | | | | | | | |
| Deposits and balances due from banks | 7,179,030 | 3,125,209 | 254 | 1,223,719 | 4,187,521 | 272,029 | 31,699 | 16,019,461 |
| Derivative financial instruments | 2,389,700 | 945 | – | 67,324 | 1,810,587 | 98 | 19,852 | 4,288,506 |
| Investment securities | 9,381,487 | 3,377,627 | 282,309 | 2,527,968 | 2,591,767 | 2,819,635 | 671,045 | 21,651,838 |
| Loans and advances, net | 126,196,706 | 3,637,006 | 234,954 | 8,144,498 | 1,377,743 | 191,650 | 779,941 | 140,562,498 |
| Other assets | 3,909,232 | 352,151 | 4,416 | 99,063 | 51,041 | 31,238 | 16,914 | 4,464,055 |
| Total | 149,056,155 | 10,492,938 | 521,933 | 12,062,572 | 10,018,659 | 3,314,650 | 1,519,451 | 186,986,358 |
| Commitment and contingent liabilities | 30,044,597 | 1,828,170 | 219 | 2,259,062 | 1,998,724 | 311,217 | 147,825 | 36,589,814 |
| 31 December 2013 | | | | | | | | |
| Assets | | | | | | | | |
| Deposits and balances due from banks | 4,614,768 | 3,993,272 | 22,504 | 537,963 | 1,519,306 | 608,683 | 48,204 | 11,344,700 |
| Derivative financial instruments | 1,729,239 | 650 | – | 70,142 | 1,638,806 | 170,699 | 6,667 | 3,616,203 |
| Investment securities | 10,805,912 | 2,620,186 | – | 879,903 | 3,200,413 | 2,951,625 | 396,733 | 20,854,772 |
| Loans and advances, net | 124,417,670 | 2,823,841 | 33,378 | 2,310,642 | 1,202,961 | 391 | 859,787 | 131,648,670 |
| Other assets | 2,726,100 | 492,071 | 111 | 66,249 | – | – | 1,519 | 3,286,050 |
| Total | 144,293,689 | 9,930,020 | 55,993 | 3,864,899 | 7,561,486 | 3,731,398 | 1,312,910 | 170,750,395 |
| Commitment and contingent liabilities | 19,244,600 | 496,576 | 104,712 | 3,793,825 | 1,703,570 | 291,799 | 686,899 | 26,321,981 |

### (b) Credit risk concentration by economic/industry sector

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

| | 31 December 2014 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | 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 | 208,394 | – | 208,394 | 215,777 | – | 215,777 |
| Energy | 1,470,512 | 1,910,712 | 3,381,224 | 527,279 | 183,377 | 710,656 |
| Trading | 3,142,931 | 332,680 | 3,475,611 | 2,172,597 | 155,286 | 2,327,883 |
| Real estate investment & hospitality | 48,234,134 | 594,872 | 48,829,006 | 51,704,059 | 733,630 | 52,437,689 |
| Transport | 1,373,193 | 815,998 | 2,189,191 | 558,357 | 673,627 | 1,231,984 |
| Personal | 33,951,440 | 269,626 | 34,221,066 | 29,901,512 | 389,073 | 30,290,585 |
| Government & public sector entities | 30,468,754 | 241,041 | 30,709,795 | 31,690,007 | 560,690 | 32,250,697 |
| Financial institutions (*) | 10,212,055 | 9,873,561 | 20,085,616 | 9,844,961 | 4,987,911 | 14,832,872 |
| Manufacturing | 1,466,266 | 1,007,843 | 2,474,109 | 944,955 | 364,810 | 1,309,765 |
| Services | 1,090,550 | 130,530 | 1,221,080 | 1,586,456 | 352,906 | 1,939,362 |
| Others | 323,302 | 221,847 | 545,149 | 769,479 | 221,868 | 991,347 |
| | 131,941,531 | 15,398,710 | 147,340,241 | 129,915,439 | 8,623,178 | 138,538,617 |
| Less: Allowance for impairment | | | (6,777,743) | | | (6,889,947) |
| **Total loans and advances, net** | | | 140,562,498 | | | 131,648,670 |

(*) Includes investment companies.

The industry sector composition of other exposures is as follows:

| | Commercial and business AED'000 | Personal AED'000 | Public sector AED'000 | Government AED'000 | Banks and financial institutions AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| **Assets** | | | | | | |
| Deposits and balances due from banks | – | – | – | – | 16,019,461 | 16,019,461 |
| Derivative financial instruments | 1,268,933 | 8,186 | 768,675 | – | 2,242,712 | 4,288,506 |
| Investment securities | 704,286 | – | 4,796,658 | 5,626,109 | 10,524,785 | 21,651,838 |
| Other assets | 3,449,752 | 254,976 | 130,058 | 425,053 | 204,216 | 4,464,055 |
| **Total** | 5,422,971 | 263,162 | 5,695,391 | 6,051,162 | 28,991,174 | 46,423,860 |
| **Commitment and contingent liabilities** | 22,646,752 | 1,025,182 | 5,794,211 | 376,910 | 6,746,759 | 36,589,814 |
| **31 December 2013** | | | | | | |
| **Assets** | | | | | | |
| Deposits and balances due from banks | – | – | – | – | 11,344,700 | 11,344,700 |
| Derivative financial instruments | 1,540,282 | 30,353 | 5,105 | 19,055 | 2,021,408 | 3,616,203 |
| Investment securities | 408,417 | – | 5,977,949 | 4,457,706 | 10,010,700 | 20,854,772 |
| Other assets | 1,971,695 | 236,966 | 906,504 | 140,261 | 30,624 | 3,286,050 |
| **Total** | 3,920,394 | 267,319 | 6,889,558 | 4,617,022 | 23,407,432 | 39,101,725 |
| **Commitment and contingent liabilities** | 13,872,971 | 1,033,661 | 3,262,522 | 482,587 | 7,670,240 | 26,321,981 |

As at reporting date, the 20 largest customer loan exposures constitute 37.04% of the gross loans and advances (31 December 2013 — 41.44%).

## 41.3 CREDIT RISK MANAGEMENT OVERVIEW

### Organisational framework

The risk management structure of the Bank is clearly established with well-defined roles and responsibilities as explained in Note 40.

The committees responsible for managing credit risk are the Management Risk & Credit Committee and the Management Recoveries Committee. ADCB risk management practices and strategies are an integral part of business planning and the budgeting process. All risk management areas are centralised under the Credit & Risk Group.

The Board Risk & Credit Committee (BRCC) is responsible for approving high-value credits and is responsible for the approval of credit policies and processes in line with growth, risk management and strategic objectives. In addition, the Bank manages credit exposure by obtaining collaterals where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Bank's credit processes are undertaken by the Internal Audit and Compliance divisions.

## 41.4 CREDIT RISK MEASUREMENT AND MITIGATION POLICIES

Loans and advances to customers are the main source of credit risk, although the Bank can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Bank's risk management policies and processes are designed to identify and analyse 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. The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties (Note 41.5).

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 where appropriate.

### Collateral

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

- cash and marketable securities;
- mortgages over residential and commercial properties;
- charges over business assets such as premises, inventory and accounts receivable;
- charges over financial instruments such as debt securities and equities; and
- guarantees.

The estimated fair value of collateral and other security enhancements held against loans and advances to customers and banks for the year ended 31 December 2014 was AED 130,582,750 thousand (31 December 2013 — AED 118,116,744 thousand).

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

### Derivatives

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

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

### Master netting arrangements

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

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

## 41.5 PORTFOLIO MONITORING AND IDENTIFYING CREDIT RISK

Credit Risk Management is actively involved in identifying and monitoring credit risk on loans. It monitors the portfolio through system-generated MIS and periodic reviews, giving due consideration to industry/general economic trends, market feedback and media reports.

Within the retail portfolios comprising homogeneous assets, statistical techniques are deployed to monitor potential weaknesses within a particular portfolio. The approach is consistent with the Bank's policy of raising a specific impairment allowance as soon as objective evidence of impairment is identified. Retail accounts are classified according to specified categories of arrears status (days-past-due buckets), which reflects the level of contractual payments which are overdue on a loan.

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement. In the event where a decision is taken to write off a loan, the account is moved to Legal Recovery function. However, in certain cases, an account may be charged off directly from a performing status, such as in the case of insolvency or death.

In the Wholesale Banking portfolio, the Bank will more frequently participate in debt restructuring agreements as part of the business support process. Debt restructuring agreements may include actions to facilitate recovery of the principal and interest outstanding, and may include rate negotiation, relaxing payment schedules, etc.

### Exposure to credit risk by days past due

The Bank's risk classification of loans and advances which is in adherence with the recommendations of the Central Bank of the UAE guidelines is as follows:

| Risk Category | |
|---|---|
| Neither past due nor impaired | Up to 30 days past due |
| Past due but not impaired loans | Between 31 and 90 days past due |
| Past due and impaired | Over 91 days past due |

The classification of loans and advances by days past due is as follows:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Neither past due nor impaired | **140,470,227** | 130,819,755 |
| Past due but not impaired | **2,259,015** | 1,997,354 |
| Past due and impaired | **4,610,999** | 5,721,508 |
| | **147,340,241** | 138,538,617 |
| Less: Allowance for impairment | **(6,777,743)** | (6,889,947) |
| **Loans and advances, net** | **140,562,498** | 131,648,670 |

Analysis of the age of past due but not impaired loans as at the end of the reporting period is as follows:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| 31–60 days | **980,353** | 1,011,265 |
| 61–90 days | **1,278,662** | 986,089 |
| **Total past due but not impaired loans** | **2,259,015** | 1,997,354 |

Loans and advances include a loan to the Government of Abu Dhabi ("Government") of AED 425,898 thousand (31 December 2013 — AED 436,008 thousand). This loan arose as a result of the Government acquiring certain non-performing loans in previous years and were indemnified by the Government through a guarantee. The Bank has an equal amount of long-term deposit against this loan (Note 16).

**Exposure to credit risk by internal risk grades**

The Bank uses an internal grading system which employs 10 grades that categorise the Bank's wholesale and high-net-worth (HNW) customers based on various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, and peer group analysis. Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1–7 are assigned to performing customers or accounts whilst credit grades 8–10 are assigned to non-performing or defaulting customers.

Credit ratings are used by the Bank to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. Retail customers or individual borrowers are not assigned a credit rating under this structure. However, retail banking uses behaviour scoring for its customers.

The internal credit grade system is not intended to replicate external credit grades, but as factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

The following table represents credit quality of loans and advances, net that are neither past due nor impaired and derivative financial assets as at 31 December:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Loans and advances, net AED'000 | Derivative financial assets AED'000 | Loans and advances, net AED'000 | Derivative financial assets AED'000 |
| **Internal risk grades** | | | | |
| Grades 1 to 4 | **39,030,401** | **3,896,924** | 30,188,330 | 3,352,045 |
| Grades 5 to 6 | **63,757,473** | **390,479** | 67,182,007 | 262,032 |
| Grade 7 | **11,539,533** | **1,103** | 11,298,330 | 1,871 |
| Ungraded — including retail loans | **26,142,820** | **–** | 22,151,088 | 255 |
| | **140,470,227** | **4,288,506** | 130,819,755 | 3,616,203 |

**External credit ratings of deposits and balances due from banks and investment securities**

The table below presents the external credit ratings as at 31 December of the Bank's deposits and balances due from banks, trading and available-for-sale bond securities based on Moody's rating scale. Wherever Moody's ratings are not available, a comparable Standard & Poor's equivalent ratings scale is used.

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Deposits and balances due from banks AED'000 | Trading securities bonds AED'000 | Available-for-sale bonds AED'000 | Deposits and balances due from banks AED'000 | Trading securities bonds AED'000 | Available-for-sale bonds AED'000 |
| **Ratings** | | | | | | |
| Aaa to Aa3 | **2,099,567** | **14,727** | **6,443,805** | 2,667,928 | – | 6,143,363 |
| A1 to A3 | **7,764,609** | **37,394** | **4,183,605** | 4,314,815 | 89,068 | 4,783,083 |
| Baa1 to Ba3 | **5,265,768** | **118,688** | **8,809,473** | 1,285,819 | 29,019 | 6,900,106 |
| B1 to B3 | **772,057** | **–** | **8,900** | 692,505 | – | – |
| Ca to Caa3 | **–** | **–** | **–** | – | – | 32 |
| Unrated | **117,460** | **28,790** | **1,661,180** | 2,383,633 | 18,685 | 2,711,735 |
| | **16,019,461** | **199,599** | **21,106,963** | 11,344,700 | 136,772 | 20,538,319 |

As at 31 December 2014, unrated available-for-sale bonds include Government bonds of AED 1,155,283 thousand (31 December 2013 — AED 2,139,168 thousand).

## 41.6 IDENTIFICATION OF IMPAIRMENT

At each reporting date, the Bank assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Bank's asset, such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both individual and collective levels.

### Individually assessed loans and advances

Impairment losses for individually assessed loans are determined by an evaluation of objective evidence relating to each exposure on a case-by-case basis. This procedure is applied to all classified corporate, commercial, high-net-worth individual loans, bank loans and advances which are individually significant accounts or are not subject to a portfolio-based-approach. Specific factors considered by management when determining allowance for impairment on individual loans and advances which are significant includes the Bank's aggregate exposure to the customer, viability of the customer's business model and its capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations, the amount and timing of expected receipts and recoveries, likely dividend available on liquidation or bankruptcy, extent of other creditors' commitments ranking ahead of, or *pari passu* with the Bank, likelihood of other creditors continuing to support the company, realisable value of security (or other credit mitigants) and likelihood of successful repossession, and likely deduction of any costs involved in recovery of amounts outstanding.

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows excluding future credit losses but including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate, when it became delinquent under the contract. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line — Impairment allowances.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities, regular valuation of the collateral and consideration of its enforceability. Impaired loans continue to be classified as impaired unless they are fully current and the collection of scheduled interest and principal is considered probable.

### Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which may have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogenous groups of loans that are not considered individually significant.

### Incurred but not yet identified loss on individual loans

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loan rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the reporting date, which the Bank is not able to identify on an individual loan basis and that can be reliably estimated. As soon as information becomes available which identifies losses on individual loans within the group of the customer, those loans are removed for the purpose of collective impairment and assessed on an individual basis for impairment. The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the reporting date.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The collective impairment allowance is determined after taking into account factors such as historical loss experience in portfolios of similar credit risk characteristics, past restructurings, estimated period between impairment occurring and the loss being identified, and evidenced by the establishment of an appropriate allowance against individual loans and management's judgement based on experience as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

### Homogenous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogenous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

Impairment of retail loans is calculated by applying a formula approach which allocates progressively higher loss rates in line with the overdue instalment date.

Retail loans — All unsecured loans falling under similar overdue categories are assumed to carry similar credit risk, and an allowance for impairment is taken on a portfolio basis. In cases of secured loans where the Bank possesses collateral (mortgage/auto loans), the realisable value of the collateral is taken into consideration in assessing the allowance for impairment.

### Write-off of loans and advances

Loans and advances (and the related impairment allowance) are normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received.

The movement in individual and collective impairment allowance on loans and advances is as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Individual impairment AED'000** | **Collective impairment AED'000** | **Total AED'000** | Individual impairment AED'000 | Collective impairment AED'000 | Total AED'000 |
| **Opening balance** | **4,250,195** | **2,639,752** | **6,889,947** | 4,207,137 | 2,256,583 | 6,463,720 |
| Charge for the year | **714,991** | **325,560** | **1,040,551** | 1,170,603 | 383,517 | 1,554,120 |
| Recoveries during the year | **(229,352)** | **–** | **(229,352)** | (187,964) | – | (187,964) |
| Net charge for the year | **485,639** | **325,560** | **811,199** | 982,639 | 383,517 | 1,366,156 |
| Discount unwind/others | **(160,011)** | **(44,245)** | **(204,256)** | (144,016) | – | (144,016) |
| Net amounts written off | **(718,638)** | **–** | **(718,638)** | (795,407) | – | (795,407) |
| Currency translation | **(389)** | **(120)** | **(509)** | (158) | (348) | (506) |
| **Closing balance** | **3,856,796** | **2,920,947** | **6,777,743** | 4,250,195 | 2,639,752 | 6,889,947 |

### Reversal of impairment

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

### Derivative-related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Bank's independent credit assessment. Credit risk in derivatives is mitigated through limit control and master netting agreements as explained in Note 41.4.

### Off-balance-sheet

The Bank applies the same risk management policies for off-balance-sheet risks as it does for its on-balance-sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

## 42 INTEREST RATE RISK FRAMEWORK, MEASUREMENT AND MONITORING

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

Overall interest rate risk positions are managed by the Bank's Treasury department, which uses derivative instruments like interest rate swaps and currency swaps to manage the overall interest rate risk arising from the Bank's interest-bearing financial instruments.

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

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

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

The Bank uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Assets & Liabilities Committee (ALCO).

The Bank's interest rate sensitivity position based on contractual repricing arrangements at 31 December 2014 was as follows. Derivative financial instruments (other than those designated in a hedge relationship) and trading book assets and liabilities (excluding non-interest-bearing) are included in the 'less than 3 months' column at their fair value. Derivative financial instruments designated in a hedge relationship are included according to their contractual next re-pricing tenor bucket at fair value.

| | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 | Non-interest-bearing items AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 769,812 | 1,400,000 | 1,375,000 | – | – | 11,547,380 | 15,092,192 |
| Deposits and balances due from banks | 11,347,128 | 3,344,493 | 567,972 | – | – | 759,868 | 16,019,461 |
| Trading securities | 199,599 | – | – | – | – | – | 199,599 |
| Derivative financial instruments | 3,033,279 | 2,274 | 1,356 | 8,071 | – | 1,243,526 | 4,288,506 |
| Investment securities | 2,238,686 | 2,173,425 | 3,259,543 | 7,059,929 | 6,375,380 | 544,875 | 21,651,838 |
| Loans and advances, net | 94,310,980 | 17,324,887 | 2,224,771 | 8,227,431 | 26,210,607 | (7,736,178) | 140,562,498 |
| Investment in associate | – | – | – | – | – | 195,854 | 195,854 |
| Investment properties | – | – | – | – | – | 615,778 | 615,778 |
| Other assets | 372,776 | – | – | – | – | 4,179,068 | 4,551,844 |
| Property and equipment, net | – | – | – | – | – | 806,188 | 806,188 |
| Intangible assets | – | – | – | – | – | 35,705 | 35,705 |
| **Total assets** | 112,272,260 | 24,245,079 | 7,428,642 | 15,295,431 | 32,585,987 | 12,192,064 | 204,019,463 |
| **Liabilities and Equity** | | | | | | | |
| Due to banks | 3,474,061 | 36,730 | – | – | – | 578,228 | 4,089,019 |
| Derivative financial instruments | 3,444,353 | 11,937 | – | 8,290 | 3,002 | 1,532,485 | 5,000,067 |
| Deposits from customers | 62,252,659 | 10,626,953 | 14,549,660 | 3,662,208 | 4,194 | 34,915,553 | 126,011,227 |
| Euro commercial paper | 3,398,994 | 1,265,598 | 1,710,692 | – | – | – | 6,375,284 |
| Borrowings | 10,484,548 | 1,125,369 | 1,349,044 | 3,520,601 | 13,840,559 | – | 30,320,121 |
| Other liabilities | – | – | – | – | – | 5,804,912 | 5,804,912 |
| Equity | – | – | – | – | – | 26,418,833 | 26,418,833 |
| **Total liabilities and equity** | 83,054,615 | 13,066,587 | 17,609,396 | 7,191,099 | 13,847,755 | 69,250,011 | 204,019,463 |
| **On-balance-sheet gap** | 29,217,645 | 11,178,492 | (10,180,754) | 8,104,332 | 18,738,232 | (57,057,947) | – |
| **Off-balance-sheet gap** | (1,322,234) | (3,358,401) | 390,837 | (3,125,076) | 7,414,874 | – | – |
| **Total interest rate sensitivity gap** | 27,895,411 | 7,820,091 | (9,789,917) | 4,979,256 | 26,153,106 | (57,057,947) | – |
| **Cumulative interest rate sensitivity gap** | 27,895,411 | 35,715,502 | 25,925,585 | 30,904,841 | 57,057,947 | – | – |

Non-interest-bearing items under loans and advances, net include mainly loan loss provisions.

The Bank's interest rate sensitivity position based on contractual repricing arrangements at 31 December 2013 was as follows:

| | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 | Non-interest-bearing items AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| 31 December 2013 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with central banks | 80,107 | 600,000 | 875,000 | – | – | 8,406,099 | 9,961,206 |
| Deposits and balances due from banks | 9,773,508 | 1,571,192 | – | – | – | – | 11,344,700 |
| Trading securities | 136,772 | – | – | – | – | 747,868 | 884,640 |
| Derivative financial instruments | 3,277,036 | 642 | – | – | – | 338,525 | 3,616,203 |
| Investment securities | 784,967 | 2,666,111 | 2,919,807 | 10,173,295 | 3,994,139 | 316,453 | 20,854,772 |
| Loans and advances, net | 89,162,675 | 16,134,140 | 1,072,446 | 9,477,933 | 23,417,673 | (7,616,197) | 131,648,670 |
| Investment properties | – | – | – | – | – | 560,690 | 560,690 |
| Other assets | 48,357 | – | – | – | – | 3,356,281 | 3,404,638 |
| Property and equipment, net | – | – | – | – | – | 805,322 | 805,322 |
| Intangible assets | – | – | – | – | – | 61,695 | 61,695 |
| **Total assets** | 103,263,422 | 20,972,085 | 4,867,253 | 19,651,228 | 27,411,812 | 6,976,736 | 183,142,536 |
| Liabilities and Equity | | | | | | | |
| Due to banks | 4,282,208 | 8,803 | – | – | – | – | 4,291,011 |
| Derivative financial instruments | 2,894,125 | 789,473 | – | – | 1,417 | 280,572 | 3,965,587 |
| Deposits from customers | 70,170,504 | 11,434,930 | 7,658,851 | 604,872 | 1,154,703 | 24,403,848 | 115,427,708 |
| Euro commercial paper | 4,073,266 | 417,099 | 1,450,070 | – | – | – | 5,940,435 |
| Borrowings | 6,821,737 | 491,346 | 4,284,298 | 3,500,767 | 8,687,420 | – | 23,785,568 |
| Other liabilities | – | – | – | – | – | 4,910,917 | 4,910,917 |
| Equity | – | – | – | – | – | 24,821,310 | 24,821,310 |
| **Total liabilities and equity** | 88,241,840 | 13,141,651 | 13,393,219 | 4,105,639 | 9,843,540 | 54,416,647 | 183,142,536 |
| **On-balance-sheet gap** | 15,021,582 | 7,830,434 | (8,525,966) | 15,545,589 | 17,568,272 | (47,439,911) | – |
| **Off-balance-sheet gap** | (771,279) | 964,577 | 2,533,252 | (7,337,694) | 4,611,144 | – | – |
| **Total interest rate sensitivity gap** | 14,250,303 | 8,795,011 | (5,992,714) | 8,207,895 | 22,179,416 | (47,439,911) | – |
| **Cumulative interest rate sensitivity gap** | 14,250,303 | 23,045,314 | 17,052,600 | 25,260,495 | 47,439,911 | – | – |

Non-interest-bearing items under loans and advances, net include mainly loan loss provisions.

## 43 LIQUIDITY RISK FRAMEWORK, MEASUREMENT AND MONITORING

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

### LIQUIDITY RISK MANAGEMENT PROCESS

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

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

- monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Bank can meet the required outflows;
- regular liquidity stress testing conducted under a variety of scenarios covering both normal and more severe market conditions with well-defined triggers and suggested actions; and
- ensuring regular compliance with the liquidity ratios such as the Advances to Stable Resources (ADR) ratio stipulated by the Central Bank of the UAE.

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

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

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

Monitoring composition of funding sources at a granular level has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as a percentage of the total liability position. Some of the ratios monitored are as follows:

- euro commercial paper to total liabilities
- wholesale funds to total liabilities
- money market deposits to total liabilities
- core funds to total liabilities
- non-core funds to total liabilities
- offshore funds to total liabilities

### TOOLS FOR LIQUIDITY MANAGEMENT

The Bank through its Treasury department ensures that it has access to diverse sources of funding ranging from local customer deposits from its retail, corporate and institutional customers as well as international sovereign wealth funds and central banks, to long-term funding such as debt securities and subordinated liabilities issued under the Global Medium-Term Note program.

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

- diversification of funding sources and balancing between long-term and short-term funding sources through borrowing under its Global Medium-Term Notes issue programs;
- monitoring the stickiness of the liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- investing in various short-term or medium-term but highly marketable assets in line with Basel III guidelines for high-quality liquid assets (HQLA) such as certificates of deposit with the Central Bank, investment grade bonds that can be repurchased at short notice, etc.

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

- overdraft facility against its cash reserves at an overnight rate at a spread of 150 basis points;
- overdraft facility beyond the cash reserves at an overnight spread of 300 basis points; and
- repo facility against identified investments securities bonds for a maximum period of seven days on renewable basis at an overnight rate with a spread of 100 basis points for CDs.

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

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

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

Derivative financial instruments (other than those designated in a hedge relationship) and trading portfolio assets and liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of remaining maturity since they are not held for settlement according to such maturity and will frequently be settled before remaining maturity at fair value. Derivatives designated in a hedge relationship are included according to their remaining maturity at fair value.

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

The maturity profile of the assets and liabilities at 31 December 2014 was as follows.

| | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| **Assets** | | | | | | |
| Cash and balances with central banks | 12,317,192 | 1,400,000 | 1,375,000 | – | – | 15,092,192 |
| Deposits and balances due from banks | 12,106,996 | 3,344,493 | 567,972 | – | – | 16,019,461 |
| Trading securities | 199,599 | – | – | – | – | 199,599 |
| Derivative financial instruments | 4,046,567 | 3,374 | 12,961 | 129,783 | 95,821 | 4,288,506 |
| Investment securities | 2,730,150 | 2,173,425 | 3,259,543 | 7,113,340 | 6,375,380 | 21,651,838 |
| Loans and advances, net | 13,247,824 | 3,880,910 | 4,559,945 | 19,453,338 | 99,420,481 | 140,562,498 |
| Investment in associate | – | – | – | – | 195,854 | 195,854 |
| Investment properties | – | – | – | 615,778 | – | 615,778 |
| Other assets | 2,592,567 | 509,290 | 1,445,473 | 4,514 | – | 4,551,844 |
| Property and equipment, net | – | – | – | – | 806,188 | 806,188 |
| Intangible assets | – | – | – | – | 35,705 | 35,705 |
| **Total assets** | 47,240,895 | 11,311,492 | 11,220,894 | 27,316,753 | 106,929,429 | 204,019,463 |
| **Liabilities** | | | | | | |
| Due to banks | 4,052,289 | 36,730 | – | – | – | 4,089,019 |
| Derivative financial instruments | 4,131,342 | 120,592 | 147,611 | 274,684 | 325,838 | 5,000,067 |
| Deposits from customers | 96,742,314 | 10,626,953 | 14,549,660 | 3,662,208 | 430,092 | 126,011,227 |
| Euro commercial paper | 3,398,994 | 1,265,598 | 1,710,692 | – | – | 6,375,284 |
| Borrowings | 4,522,596 | 2,594,569 | 1,349,044 | 7,629,836 | 14,224,076 | 30,320,121 |
| Other liabilities | 3,571,806 | 447,989 | 1,444,098 | 4,514 | 336,505 | 5,804,912 |
| Equity | – | – | – | – | 26,418,833 | 26,418,833 |
| **Total liabilities and equity** | 116,419,341 | 15,092,431 | 19,201,105 | 11,571,242 | 41,735,344 | 204,019,463 |
| **Balance sheet liquidity gap** | (69,178,446) | (3,780,939) | (7,980,211) | 15,745,511 | 65,194,085 | – |
| **Off balance sheet** | | | | | | |
| **Financial guarantees and irrevocable commitments** | 809,879 | 565,740 | 4,405,885 | 5,119,135 | 3,316,568 | 14,217,207 |

The maturity profile of the assets and liabilities at 31 December 2013 was as follows:

| | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| **Assets** | | | | | | |
| Cash and balances with central banks | 8,486,206 | 600,000 | 875,000 | – | – | 9,961,206 |
| Deposits and balances due from banks | 9,773,508 | 1,571,192 | – | – | – | 11,344,700 |
| Trading securities | 884,640 | – | – | – | – | 884,640 |
| Derivative financial instruments | 3,242,409 | 5,296 | 99,598 | 133,300 | 135,600 | 3,616,203 |
| Investment securities | 1,023,258 | 2,443,005 | 3,209,989 | 9,959,421 | 4,219,099 | 20,854,772 |
| Loans and advances, net | 11,640,656 | 6,329,907 | 2,678,998 | 16,632,585 | 94,366,524 | 131,648,670 |
| Investment properties | – | – | – | – | 560,690 | 560,690 |
| Other assets | 2,523,487 | 757,440 | 123,711 | – | – | 3,404,638 |
| Property and equipment, net | – | – | – | – | 805,322 | 805,322 |
| Intangible assets | – | – | – | – | 61,695 | 61,695 |
| **Total assets** | 37,574,164 | 11,706,840 | 6,987,296 | 26,725,306 | 100,148,930 | 183,142,536 |
| **Liabilities** | | | | | | |
| Due to banks | 4,282,208 | 8,803 | – | – | – | 4,291,011 |
| Derivative financial instruments | 3,157,792 | 6,026 | 15,263 | 276,006 | 510,500 | 3,965,587 |
| Deposits from customers | 94,574,351 | 11,434,930 | 7,658,851 | 604,872 | 1,154,704 | 115,427,708 |
| Euro commercial paper | 4,073,266 | 417,099 | 1,450,070 | – | – | 5,940,435 |
| Borrowings | 1,653,894 | 491,346 | 6,116,537 | 4,558,919 | 10,964,872 | 23,785,568 |
| Other liabilities | 3,773,663 | 757,440 | 123,711 | – | 256,103 | 4,910,917 |
| Equity | – | – | – | – | 24,821,310 | 24,821,310 |
| **Total liabilities and equity** | 111,515,174 | 13,115,644 | 15,364,432 | 5,439,797 | 37,707,489 | 183,142,536 |
| **Balance sheet liquidity gap** | (73,941,010) | (1,408,804) | (8,377,136) | 21,285,509 | 62,441,441 | – |
| **Off balance sheet** | | | | | | |
| **Financial guarantees and irrevocable commitments** | 2,329,104 | 472,147 | 490,872 | 461,205 | 604,891 | 4,358,219 |

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. Derivative financial instruments held for trading are included in the "less than 3 months" column at their fair value. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

| | Carrying amount AED'000 | Gross outflow AED'000 | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to banks | **4,089,019** | **4,089,886** | **4,053,058** | **36,828** | **–** | **–** | **–** |
| Derivative financial instruments | **5,000,067** | **5,023,682** | **4,077,474** | **214,931** | **113,896** | **281,165** | **336,216** |
| Deposits from customers | **126,011,227** | **126,468,608** | **96,874,067** | **10,711,147** | **14,711,405** | **3,733,361** | **438,628** |
| Euro commercial paper | **6,375,284** | **6,386,264** | **3,401,055** | **1,267,617** | **1,717,592** | **–** | **–** |
| Borrowings | **30,320,121** | **36,046,831** | **4,776,097** | **2,710,859** | **1,699,753** | **9,785,018** | **17,075,104** |
| **Total financial liabilities** | **171,795,718** | **178,015,271** | **113,181,751** | **14,941,382** | **18,242,646** | **13,799,544** | **17,849,948** |
| **31 December 2013** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to banks | 4,291,011 | 4,291,942 | 4,283,139 | 8,803 | – | – | – |
| Derivative financial instruments | 3,965,587 | 4,339,381 | 3,157,645 | 296,518 | 23,033 | 190,433 | 671,752 |
| Deposits from customers | 115,427,708 | 115,887,664 | 94,793,212 | 11,545,539 | 7,762,519 | 1,771,943 | 14,451 |
| Euro commercial paper | 5,940,435 | 5,948,973 | 4,075,207 | 417,338 | 1,456,428 | – | – |
| Borrowings | 23,785,568 | 27,262,021 | 1,797,738 | 680,881 | 6,232,724 | 5,420,030 | 13,130,648 |
| **Total financial liabilities** | 153,410,309 | 157,729,981 | 108,106,941 | 12,949,079 | 15,474,704 | 7,382,406 | 13,816,851 |

## 44 FOREIGN EXCHANGE RISK FRAMEWORK, MEASUREMENT AND MONITORING

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The sensitivity of currency fluctuation risk is given in Note 45. The foreign currency position on account of foreign currency contracts represents the nominal value of transactions dealt and remains outstanding under the Bank's trading and hedging portfolio at reporting date. The analysis of currency concentrations of the Bank's statement of financial position are presented below:

| | AED<br>AED'000 | USD<br>AED'000 | EUR<br>AED'000 | CHF<br>AED'000 | GBP<br>AED'000 | MYR<br>AED'000 | Others<br>AED'000 | Total<br>AED'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 13,569,830 | 1,478,331 | – | – | 23 | – | 44,008 | 15,092,192 |
| Deposits and balances due from banks | 4,872,896 | 7,409,857 | 165,777 | 25,206 | 513,076 | 120 | 3,032,529 | 16,019,461 |
| Trading securities | – | 199,599 | – | – | – | – | – | 199,599 |
| Derivative financial instruments | 1,160,711 | 3,120,663 | 413 | – | – | – | 6,719 | 4,288,506 |
| Investment securities | 336,076 | 18,298,044 | 1,178,432 | – | – | – | 1,839,286 | 21,651,838 |
| Loans and advances, net | 107,694,204 | 32,089,205 | 33,706 | – | 17,551 | – | 727,832 | 140,562,498 |
| Investment in associate | 195,854 | – | – | – | – | – | – | 195,854 |
| Investment properties | 615,778 | – | – | – | – | – | – | 615,778 |
| Other assets | 813,806 | 3,308,119 | 71,601 | 5,190 | 15,110 | 33,092 | 304,926 | 4,551,844 |
| Property and equipment, net | 801,878 | – | – | – | – | – | 4,310 | 806,188 |
| Intangible assets | 35,705 | – | – | – | – | – | – | 35,705 |
| **Total assets** | 130,096,738 | 65,903,818 | 1,449,929 | 30,396 | 545,760 | 33,212 | 5,959,610 | 204,019,463 |
| **Liabilities and Equity** | | | | | | | | |
| Due to banks | 2,230,279 | 1,707,876 | 4,034 | – | 10 | – | 146,820 | 4,089,019 |
| Derivative financial instruments | 1,592,341 | 3,398,999 | – | – | – | – | 8,727 | 5,000,067 |
| Deposits from customers | 77,480,201 | 33,628,483 | 994,337 | 23,938 | 755,013 | 12 | 13,129,243 | 126,011,227 |
| Euro commercial paper | – | 3,231,920 | 1,082,659 | 619,295 | 1,441,410 | – | – | 6,375,284 |
| Borrowings | 173,923 | 28,301,397 | 1,126,752 | – | – | 31 | 718,018 | 30,320,121 |
| Other liabilities | 2,578,278 | 2,169,382 | 72,791 | 5,270 | 17,221 | 18,185 | 943,785 | 5,804,912 |
| Equity | 26,048,931 | 343,848 | 26,054 | – | – | – | – | 26,418,833 |
| **Total liabilities and equity** | 110,103,953 | 72,781,905 | 3,306,627 | 648,503 | 2,213,654 | 18,228 | 14,946,593 | 204,019,463 |
| **Net balance sheet position** | 19,992,785 | (6,878,087) | (1,856,698) | (618,107) | (1,667,894) | 14,984 | (8,986,983) | – |
| **Net FX position on account of FX contracts** | (1,564,369) | (3,935,482) | (1,662,920) | 664,301 | 2,083,911 | – | 4,414,559 | – |
| **Net FX open position** | 18,428,416 | (10,813,569) | (3,519,618) | 46,194 | 416,017 | 14,984 | (4,572,424) | – |

| | AED AED'000 | USD AED'000 | EUR AED'000 | CHF AED'000 | GBP AED'000 | MYR AED'000 | Others AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 8,831,948 | 1,025,723 | 61 | – | – | – | 103,474 | 9,961,206 |
| Deposits and balances due from banks | 3,414,750 | 2,081,363 | 677,034 | 207,318 | 483,193 | – | 4,481,042 | 11,344,700 |
| Trading securities | 477,038 | 192,511 | – | – | – | – | 215,091 | 884,640 |
| Derivative financial instruments | 307,197 | 222,384 | 2 | – | – | – | 3,086,620 | 3,616,203 |
| Investment securities | 229,494 | 19,557,530 | 547,029 | – | – | – | 520,719 | 20,854,772 |
| Loans and advances, net | 107,099,884 | 22,049,975 | 18,636 | – | 18,817 | – | 2,461,358 | 131,648,670 |
| Investment properties | 560,690 | – | – | – | – | – | – | 560,690 |
| Other assets | 664,112 | 2,335,381 | 83,088 | 7,547 | 1,417 | 35,382 | 277,711 | 3,404,638 |
| Property and equipment, net | 801,482 | – | – | – | – | – | 3,840 | 805,322 |
| Intangible assets | 61,695 | – | – | – | – | – | – | 61,695 |
| **Total assets** | 122,448,290 | 47,464,867 | 1,325,850 | 214,865 | 503,427 | 35,382 | 11,149,855 | 183,142,536 |
| **Liabilities and Equity** | | | | | | | | |
| Due to banks | 2,466,059 | 1,714,362 | 502 | – | 110,088 | – | – | 4,291,011 |
| Derivative financial instruments | 819,858 | 87,076 | 80 | – | – | – | 3,058,573 | 3,965,587 |
| Deposits from customers | 80,833,071 | 27,622,090 | 897,540 | 206,422 | 1,777,990 | 13 | 4,090,582 | 115,427,708 |
| Euro commercial paper | – | 2,424,180 | 1,568,178 | 618,385 | 1,329,692 | – | – | 5,940,435 |
| Borrowings | 136,315 | 23,037,084 | 554,022 | – | – | – | 58,147 | 23,785,568 |
| Other liabilities | 2,946,464 | 1,028,480 | 26,194 | 6,938 | 5,981 | 19,086 | 877,774 | 4,910,917 |
| Equity | 24,289,565 | 488,595 | 43,150 | – | – | – | – | 24,821,310 |
| **Total liabilities and equity** | 111,491,332 | 56,401,867 | 3,089,666 | 831,745 | 3,223,751 | 19,099 | 8,085,076 | 183,142,536 |
| **Net balance sheet position** | 10,956,958 | (8,937,000) | (1,763,816) | (616,880) | (2,720,324) | 16,283 | 3,064,779 | – |
| **Net FX position on account of FX contracts** | (2,476,945) | (2,755,489) | 1,773,259 | 634,450 | 2,686,374 | – | 138,351 | – |
| **Net FX open position** | 8,480,013 | (11,692,489) | 9,443 | 17,570 | (33,950) | 16,283 | 3,203,130 | – |



## 45 MARKET RISK FRAMEWORK, MEASUREMENT AND MANAGEMENT

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

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

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

### MARKET RISK ARISING FROM TRADING BOOK

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

### MARKET RISK ARISING FROM BANKING BOOK

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

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

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

### RISK IDENTIFICATION AND CLASSIFICATION

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

## MANAGEMENT OF MARKET RISK

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

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

Market risk management is overseen by the Management Risk & Credit Committee (MRCC) and performs the following primary functions:

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

## RISK MEASUREMENT

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

## STATISTICAL RISK MEASURES

The Bank measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every 100 days. The Board has set limits for the acceptable level of risks in managing the trading book.

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

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

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

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

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| **Daily value at risk (VaR at 99% — 1 day)** | | |
| Overall risk | **(4,898)** | (4,318) |
| Average VaR | **(4,896)** | (4,212) |

## NON-STATISTICAL RISK MEASURES

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

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

## SENSITIVITY ANALYSIS

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

## CURRENCY RISK

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

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| Price shock in percentage | +10% AED'000 | -10% AED'000 | +10pips AED'000 | -10pips AED'000 | +10% AED'000 | -10% AED'000 | +10pips AED'000 | -10pips AED'000 |
| USD-AUD | **115** | **(115)** | **9** | **(9)** | (427) | (2,713) | 3 | (4) |
| EUR-USD | **313,230** | **15,381** | **(8)** | **26** | 117,458 | 39,507 | (18) | 32 |
| GBP-USD | **1,761** | **(13,680)** | **(14)** | **10** | (120) | 120 | (1) | 1 |
| USD-JPY | **(529)** | **(1,843)** | **–** | **–** | (126) | 154 | – | – |
| USD-CHF | **5,406** | **4,675** | **10** | **(4)** | 3,794 | 19,346 | (16) | 18 |
| USD-INR | **(16,648)** | **43,366** | **(3)** | **3** | (18,012) | 22,015 | (3) | 3 |

During the year, the sensitivity monitoring practice has been revised from +/-10% to +/-5% movement in the foreign currency exchange rates to make the stress testing represent historical movements.

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

| | 2014 | |
|---|---|---|
| Price Shock in Percentage | +5% AED'000 | -5% AED'000 |
| USD-AUD | 57 | (57) |
| EUR-USD | (6,838) | 8,906 |
| GBP -USD | (1,389) | (4,219) |
| USD-JPY | (206) | (351) |
| USD-CHF | 2,643 | 1,903 |
| USD-INR | (8,816) | 18,173 |

## INTEREST RATE RISK — TRADING BOOK

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

Relative instantaneous rate move shift for all tenors:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | +25% AED'000 | -25% AED'000 | +25% AED'000 | -25% AED'000 |
| AED | 54,635 | (56,243) | (17,689) | 29,346 |
| USD | (39,435) | 41,160 | 11,955 | (20,087) |

## INTEREST RATE RISK — BANKING BOOK

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | +25 bps AED'000 | -25 bps AED'000 | +25 bps AED'000 | -25 bps AED'000 |
| Sensitivity of net interest income | 52,941 | (52,145) | 26,783 | (26,783) |

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

# 46 OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business processes and activities carried out by the Bank and can expose the Bank to potentially large losses. The Bank manages operational risk exposures through a consistent set of management processes that include risk identification, assessment, control, mitigation and monitoring. The Operational Risk Management Framework is built on elements that allow the Bank to effectively manage and measure its operational risk profile and to calculate the amount of operational risk capital it needs to hold to absorb potential losses. The framework is governed by a three-lines-of-defence concept.

Each business group, as an integral part of its first line of defence responsibilities, is responsible for identifying and managing risks that arise from its activities. Identified operational risk exposures are rated 'Minor', 'Moderate', 'Significant' and 'Major' in accordance with defined risk assessment criteria. Significant and Major risks are analysed to identify the root cause of any failure for remediation and future mitigation.

As the second line of defence, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management and control. This includes defining appropriate policies, and provides tools to manage and monitor operational risks within the Bank's activities. The Group Operational Risk function is well supported by Business Operational Risk Managers, for identifying risks that are material to the Group and for maintaining an effective control environment across the organisation. Additionally, a system has been implemented to ensure that operational risk data is consistently captured across the Bank in line with the regulatory framework. Products and services offered to clients and customers are also assessed and authorised in accordance with product governance policies and procedures. Operational risk reporting is an integral part of the governance framework. On a quarterly basis, reporting is done to the heads of business groups, senior management committees and the Board Risk Committee.

As the third line of defence, the Internal Audit function provides further independent review of the Bank's operational risk management processes, systems and controls, and reports to the Board and senior management.

# 47 FOREIGN CURRENCY BALANCES

Net assets amounting to Indian rupee equivalent of AED 203,778 thousand (31 December 2013 — AED 201,907 thousand) held in India are subject to the exchange control regulations of India.

# 48 TRUST ACTIVITIES

As at 31 December 2014, the net asset value of the funds under the management of the Bank amounted to AED 2,895,168 thousand (31 December 2013 — AED 1,910,018 thousand).

## 49 SUBSIDIARIES

The following is the list of material subsidiaries of the Bank:

| Name of subsidiary | Ownership interest | Incorporation Year | Incorporation Country | Principal activities |
|---|---|---|---|---|
| ADCB Securities LLC | 100% | 2005 | UAE | Agent in trading of financial instruments and stocks |
| Abu Dhabi Commercial Properties LLC | 100% | 2005 | UAE | Real estate property management and advisory services |
| Abu Dhabi Commercial Finance Solutions LLC | 100% | 2005 | UAE | Financial investments |
| Abu Dhabi Commercial Investment Services LLC | 100% | 2005 | UAE | Financial investments |
| Kinetic Infrastructure Development LLC | 100% | 2006 | UAE | Financial investments |
| Abu Dhabi Commercial Engineering Services LLC | 100% | 2007 | UAE | Engineering services |
| ADCB Finance (Cayman) Limited | 100% | 2008 | Cayman Islands | Treasury financing activities |
| ADCB Fund Management SARL | 100% | 2009 | Luxembourg | Fund management company |
| Al Nokhitha Investments Feeder Fund | 82.81% | 2009 | Luxembourg | Mutual fund |
| MSCI UAE Index Fund Feeder Fund | 99.81% | 2009 | Luxembourg | Mutual fund |
| Arabian Index Feeder Fund | 78.14% | 2009 | Luxembourg | Mutual fund |
| Abu Dhabi Commercial Islamic Finance Pvt.J.S.C. | 100% | 2009 | UAE | Islamic banking |
| ITMAM Services FZ LLC (Formerly known as ADCB Services FZ LLC) | 100% | 2010 | UAE | Transaction processing and back-office support for related parties |
| ADCB Islamic Finance (Cayman) Limited | 100% | 2011 | Cayman Islands | Islamic financing activities |
| ITMAM Services LLC | 100% | 2014 | UAE | Transaction processing and back-office support for related parties |
| Omicron Capital (Cayman) Limited | 100% | 2014 | Cayman Islands | Treasury financing activities |

## 50 CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

### CAPITAL MANAGEMENT PROCESS

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

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

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of the UAE. The required information is filed with regulators on a regular basis as required under Basel II standards.

The UAE Central Bank vide its circular No. 27/2009 dated 17 November 2009 informed all the banks operating in the UAE to implement the standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has issued guidelines for the implementation of the standardised approach, and banks are required to comply and report under Pillar 2 — Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank has given banks the option to use the basic indicators approach or the standardised approach and the Bank has chosen to use the standardised approach.

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

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

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

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

The Bank also prepares an annual comprehensive ICAAP (Internal Capital Adequacy Assessment Process) document. This document is a detailed assessment by the Bank of its risk profile, approaches to assessing and measuring various material risks, and capital planning under regular and stress scenarios.

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

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

## CAPITAL SUPPLY

As per Basel II requirements, capital should comprise the following:

**Tier 1 capital** includes paid-up share capital, share premium, published reserves (including post-tax retained earnings but excluding positive balance of cumulative changes in fair value), hybrid Tier 1 instruments (with prior approval from the Central Bank) and non-controlling interests in the equity of subsidiaries less than wholly owned.

Deductions are made from Tier 1 core capital as per the Basel guidelines/Central Bank of UAE rules and includes goodwill and other intangibles at net book value, adjustments for the cumulative effect of foreign currency translation, negative balance of cumulative changes in fair value, and own shares held — at net book value, taking account of any provisions made against the acquisition value, current-year loss/retained losses, shortfall in provisions and other deductions to be determined by the Central Bank of the UAE.

**Tier 2 capital** includes collective provisions per Basel guidelines and UAE Central Bank rules, undisclosed reserves, asset revaluation reserves/cumulative changes in fair value, hybrid (debt/equity) capital instruments, and subordinated term loan.

**Tier 3 capital** includes principal forms of eligible capital to cover market risks and consists of shareholders' equity and retained earnings (Tier 1 capital) and supplementary capital (Tier 2 capital). Subject to prior approval from the Central Bank of the UAE, banks may employ a third tier of capital (Tier 3), consisting of short-term subordinated debt as defined in paragraph 49(xiv) of Basel II, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the conditions in paragraph 49(xiii) and 49(xiv).

## SECURITISED ASSETS

Exposures to securitised assets that are rated B+ and below (long-term), below A3/P3 (short-term), or are un-rated are deducted from the capital base, and the deductions will be 50% from Tier 1 and 50% from Tier 2 capital.

## CAPITAL ALLOCATION

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

## CAPITAL ADEQUACY RATIO

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

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital (Note 20) | **5,595,597** | 5,595,597 |
| Share premium | **3,848,286** | 3,848,286 |
| Other reserves, net of Treasury shares (Note 21) | **5,540,106** | 4,784,282 |
| Retained earnings | **7,172,755** | 5,597,275 |
| Non-controlling interests in equity of subsidiaries | **10,397** | 644,712 |
| Capital notes (Note 24) | **4,000,000** | 4,000,000 |
| Less: Intangible assets (Note 14) | **(35,705)** | (61,695) |
| Less: Investment in associate (Note 52) | **(97,927)** | – |
| **Total Tier 1 capital** | **26,033,509** | 24,408,457 |
| **Tier 2 capital** | | |
| Collective impairment allowance on loans and advances | **1,709,253** | 1,684,495 |
| Cumulative changes in fair value (Note 21) | **113,261** | 158,021 |
| Subordinated notes (Note 18) | **4,439,637** | 4,904,727 |
| Less: Investment in associate (Note 52) | **(97,927)** | – |
| **Total Tier 2 capital** | **6,164,224** | 6,747,243 |
| **Total regulatory capital** | **32,197,733** | 31,155,700 |
| **Risk-weighted assets** | | |
| Credit risk | **136,740,240** | 134,759,561 |
| Market risk | **4,497,079** | 4,890,071 |
| Operational risk | **11,835,586** | 7,216,753 |
| **Total risk-weighted assets** | **153,072,905** | 146,866,385 |
| **Capital adequacy ratio** | **21.03%** | 21.21% |
| **Tier 1 ratio** | **17.01%** | 16.62% |
| **Tier 2 ratio** | **4.02%** | 4.59% |

The capital adequacy ratio was above the minimum requirement of 12% for 31 December 2014 (31 December 2013 — 12%) stipulated by the Central Bank of the UAE.

**Tier 1 capital comprises the following resources:**

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

(b) Statutory and legal reserves:

(i) Statutory reserve: As required by Article 255 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid-up share capital. Accordingly, an amount of AED 404,973 thousand was transferred to statutory reserve during the year (31 December 2013 — AED 336,531 thousand). The statutory reserve is not available for distribution.

(ii) Legal reserve: In accordance with Article 82 of Union Law No. 10 of 1980 and Article 84 of the Memorandum and Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid-up share capital.

Accordingly an amount of AED 404,973 thousand was transferred to legal reserve during the year (31 December 2013 — AED 336,531 thousand). The legal reserve is not available for distribution.

(c) General reserve and contingency reserves:

(i) General reserve: In accordance with Article 84 of the Memorandum and Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid-up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

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

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

(e) Foreign currency translation reserve: The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

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

(g) Non-controlling interests in equity of subsidiaries.

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

Deductions from Tier 1 resources include intangible assets and 50% of investment in associate.

**Tier 2 capital comprises the following resources:**

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

(b) Cumulative changes in fair value — The cumulative changes in fair values includes the cumulative net change in the fair value of available-for-sale investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive. But if the balance is negative, the entire balance is adjusted in Tier 1 capital.

(c) Eligible subordinated notes (Note 18).

Deductions from Tier 2 resources include 50% of investment in associate.

## 51 DISPOSAL OF FUND SUBSIDIARIES

On 31 March 2014, the Bank redeemed substantial units in Al Nokhitha Investments Feeder Fund, MSCI UAE Index Feeder Fund and Arabian Index Feeder Fund, which resulted in reduction of its indirect stake in Al Nokhitha Fund, ADCB MSCI UAE Index Fund and ADCB Arabian Index Fund (the "Funds"), and consequently its exposure to variable returns from its involvement in these Funds reduced considerably to a level that led the Bank to conclude that there is a loss of control over these subsidiaries. The residual interest in these Funds is classified as available-for-sale investments as per IAS 39 (Note 39).

**Analysis of net assets over which control was lost**

| | AED'000 |
|---|---|
| Bank balances | 226,121 |
| Trading securities | 867,792 |
| Other assets | 11,888 |
| **Total assets** | **1,105,801** |
| Other liabilities | 4,218 |
| Non-controlling interests | 836,495 |
| **Total liabilities** | **840,713** |
| **Net assets over which control was lost** | **265,088** |

**Sales consideration**

| | AED'000 |
|---|---|
| Cash consideration received | 95,112 |
| Fair value of residual interest classified as available-for-sale investments | 169,976 |
| **Total sales consideration** | **265,088** |
| **Less: Fair value of net assets over which control was lost** | **265,088** |
| **Gain on disposal of Fund subsidiaries** | **–** |

**Net cash inflow on disposal of Fund subsidiaries**

| | AED'000 |
|---|---|
| Consideration received in cash and cash equivalents | 95,112 |

Fair value of residual interest has been booked as transfer to available-for-sale investments and this being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

Net gains amounting to AED 91,521 thousand on Treasury shares held by the Fund subsidiaries pertaining to previous periods were recognised in retained earnings on the date of loss of control.

## 52 INVESTMENT IN ASSOCIATE

Investment in associate includes the Bank's interest in an immaterial associate representing 35% equity stake in the entity. The Bank has determined that it exercises significant influence based on the representation in the management of the entity. The investment in associate has been accounted in the consolidated financial statements using the equity method at the net fair value of the identifiable assets and liabilities of the associate on the date of acquisition.

## 53 LEGAL PROCEEDINGS

The Bank 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 Bank's consolidated financial statements if disposed unfavourably.

بنك أبوظبي التجاري
ADCB