Basel II —
Pillar III

بنك أبوظبي التجاري
ADCB

Abu Dhabi Commercial Bank PJSC

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1 SUMMARY OF DIFFERENCES BETWEEN PILLAR III DISCLOSURES AND RISK REVIEW

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

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

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

Topic	Audited consolidated financial statements	Pillar III disclosures
Credit risk management, measurement and risk grading	▶ An overview of credit, liquidity and market risk management and measurement along with the quantitative disclosures are set out in Notes 41, 43 and 45 to the audited financial statements respectively. ▶ Maximum exposure to credit risk net of impairment and interest in suspense and before adjusting credit risk mitigants (CRM) and credit risk concentration are provided in Notes 41.1 and 41.2 to the audited consolidated financial statements. ▶ Internal credit risk grading analysis provided by business for loans neither past due nor impaired and available-for-sale investments are provided in Note 41.5 to the audited consolidated financial statements. ▶ Note 50 to the audited consolidated financial statements provide the overall capital adequacy of the Bank split into Tier 1 and Tier 2 ratios.	▶ A detailed analysis of credit risk exposure and risk-weighted assets (RWA) calculated according to the standardised approach is set out in sections 11 and 12 of this report. ▶ A more detailed analysis of credit risk exposure pre- and post-credit risk mitigants and after applying credit conversion factors (CCFs) to the off-balance-sheet exposure is disclosed in sections 11 and 12 of this report. ▶ Section 12 of this report provides an indicative mapping of the Bank's rated and unrated exposure. ▶ Minimum regulatory capital requirements for credit, market and operational risk are set out in section 9 of this report.
Credit risk mitigation	An overview of CRM is provided in Note 41.4 to the audited consolidated financial statements.	Provides description of total CRM held by the Bank and those eligible from a regulatory perspective. This report also provides total exposure post- and pre-CRM (eligible under Basel II standardised approach). The eligible collaterals for the Bank's standardised portfolio are also disclosed in section 17 of this report.
Concentration of credit risk	Disclosures on concentration of credit risk by geography, economic and industry sector are provided in Note 41.2 to the audited consolidated financial statements.	Disclosures on concentration of credit risk by geography, currency, economic sector and residual maturity calculated based on the Basel II rules are provided in sections 13, 14, 15 and 16 of this report.
Credit risk management and impairment allowance	Provisioning approach and definition of impaired loans along with disclosures of impaired loans, past due but not impaired loans, past due and impaired loans, individual impairment charge and collective impairment charge are set out in Note 41.6 to the audited consolidated financial statements.	Disclosures of impaired loans, impairment balance and interest in suspense by geography and economic sector are set out in section 18.
Market risk	Description of market risk management and measurement along with quantitative disclosures on VaR and sensitivity analysis are set out in Note 45 to the audited consolidated financial statements.	Sections 19 and 20 of this report provide quantitative disclosures of capital requirements for market risk (including equity risk).
Operational risk	Provide an overview of operational risk.	A detailed description of operational risk including information system and regulatory risk faced by the Bank is set out in section 21.

RESTATEMENT OF 2013 PILLAR III REPORT

Certain items of exposures have been reclassified, eliminated, consolidated and rearranged from the Bank's prior year Pillar III report to conform to the current year's presentation and improve the transparency of certain line items of the Pillar III report.

The Central Bank of UAE vide notice no. 3823/2012 dated 14/11/2012 has instructed all banks to report on new banking return forms which are more extensive and granular than the existing reports. As a result, among other things, economic sector definitions and classifications were further refined and expanded from 40 to 91 sectors. During 2013 and 2014, the Bank, based on the circular, revisited the economic sector classification for its credit risk exposure. Accordingly, the economic sector of the credit risk exposure was reclassified for prior-year Pillar III disclosures to conform to the current year's presentation.

In June 2014, the Central Bank also issued a revised CR2 template for capital reporting based on which reclassification of certain exposures were carried out in 2014 and accordingly 2013 reported exposures were realigned to conform to the current year's presentation.

3 COMPARISON BETWEEN THE STATEMENT OF FINANCIAL POSITION (ACCOUNTING) AND EXPOSURE AT DEFAULT AS AT 31 DECEMBER:

AED'000

Assets	Assets per Bank's statement of financial position	Effect of regulatory consolidation	Assets subject to market risk only	Equity in banking Book	Regulatory balance sheet for credit risk (Gross Exposure pre CCF and CRM)	Specific provisions and IIS adjustments used in capital calculation	Regulatory balance sheet for credit risk (Net Exposure pre CCF and CRM)	Recognition of off-balance sheet and PFE on OTC derivatives	Credit risk mitigants (CRM)	Credit Risk EAD after all adjustments
2014										
Cash and balances with central banks	**15,092,192**	**–**	**–**	**–**	**15,092,192**	**–**	**15,092,192**	**–**	**–**	**15,092,192**
Deposits and balances due from banks	**16,019,461**	**–**	**–**	**–**	**16,019,461**	**–**	**16,019,461**	**–**	**–**	**16,019,461**
Trading securities	**199,599**	**–**	**(199,599)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivative financial instruments	**4,288,506**	**–**	**(4,288,506)**	**–**	**–**	**–**	**–**	**7,460,088**	**(3,569,466)**	**3,890,622**
Investment securities	**21,651,838**	**–**	**–**	**(544,875)**	**21,106,963**	**–**	**21,106,963**	**–**	**–**	**21,106,963**
Loans and advances, net	**140,562,498**	**8,148,742**	**–**	**–**	**148,711,240**	**(4,750,124)**	**143,961,116**	**19,928,218**	**(24,205,304)**	**139,684,030**
Investment in associate	**195,854**	**(195,854)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Investment properties	**615,778**	**–**	**–**	**–**	**615,778**	**–**	**615,778**	**–**	**–**	**615,778**
Other assets	**4,551,844**	**(3,072,456)**	**–**	**–**	**1,479,388**	**–**	**1,479,388**	**–**	**–**	**1,479,388**
Property and equipment, net	**806,188**	**–**	**–**	**–**	**806,188**	**–**	**806,188**	**–**	**–**	**806,188**
Intangible assets	**35,705**	**(35,705)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	204,019,463	**4,844,727**	**(4,488,105)**	**(544,875)**	**203,831,210**	**(4,750,124)**	**199,081,086**	**27,388,306**	**(27,774,770)**	**198,694,622**
2013										
Cash and balances with central banks	9,961,206	–	–	–	9,961,206	–	9,961,206	–	–	9,961,206
Deposits and balances due from banks	11,344,700	–	–	–	11,344,700	–	11,344,700	–	–	11,344,700
Trading securities	884,640	–	(884,640)	–	–	–	–	–	–	–
Derivative financial instruments	3,616,203	–	(3,616,203)	–	–	–	–	6,016,069	(2,827,631)	3,188,438
Investment securities	20,854,772	–	–	(316,453)	20,538,319	–	20,538,319	–	–	20,538,319
Loans and advances, net	131,648,670	7,951,102	–	–	139,599,772	(4,803,982)	134,795,790	15,862,238	(19,078,508)	131,579,520
Investment in associate	–	–	–	–	–	–	–	–	–	–
Investment properties	560,690	–	–	–	560,690	–	560,690	–	–	560,690
Other assets	3,404,638	(2,527,743)	–	–	876,895	–	876,895	–	–	876,895
Property and equipment, net	805,322	–	–	–	805,322	–	805,322	–	–	805,322
Intangible assets	61,695	(61,695)	–	–	–	–	–	–	–	–
	183,142,536	5,361,664	(4,500,843)	(316,453)	183,686,904	(4,803,982)	178,882,922	21,878,307	(21,906,139)	178,855,090

* Guarantees (credit risk mitigant) used to substitute credit risks are not adjusted here as the exposure value remains the same but substituted for a lower credit risk band.

4 OVERVIEW OF BASEL II REQUIREMENTS

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

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

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

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

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

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

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

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

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

5 ADCB'S APPROACH TO PILLAR I

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

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

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

6 FUTURE DEVELOPMENTS

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

In December 2010, the Basel Committee issued final rules in two documents: A global regulatory framework for more resilient banks and banking systems and an international framework for liquidity risk measurement, standards and monitoring, which together are commonly referred to as 'Basel III'. Basel III will require banks to hold 4.5% of common equity (up from 2% in Basel II) and 6% of Tier 1 capital (up from 4% in Basel II) of risk-weighted assets (RWA). Basel III also introduces additional capital buffers, (i) a mandatory capital conservation buffer of 2.5% and (ii) a discretionary countercyclical buffer, which allows national regulators to require up to another 2.5% of capital during periods of high credit growth.

In addition, Basel III introduces a minimum 3% leverage ratio and two required liquidity ratios. The Liquidity Coverage Ratio requires a bank to hold sufficient high-quality liquid assets to cover its total net cash flows over 30 days; 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 Basel Committee published a proposed revision to the NSFR standards. The minimum NSFR requirement to be introduced in January 2018 is 100%. Basel III has not yet been officially implemented by the UAE Central Bank, and ADCB monitors the LCR, NSFR and leverage ratio set by the Basel III requirements for internal purposes only.

IMPACT ON ADCB

At the end of 2014, the capital ratio and the Tier 1 ratio of the Bank were 21.03% and 17.01%, respectively. Additionally, the composition of the Bank's capital is of high quality and is equity-based with lesser reliance on Tier 2 capital supply (i.e. hybrid instruments). Further, the UAE Central Bank has a set total capital adequacy ratio of 12% and Tier 1 capital adequacy ratio of 8%, which are higher than the target 2019 Basel III ratios of 10.5% and 7%, respectively.

BASIS OF CONSOLIDATION AND PREPARATION

The Bank's Pillar III disclosures are presented on a consolidated basis for the year ended 31 December 2014. The consolidation basis used is the same as that used for regulatory capital adequacy.

In accordance with paragraph 825 of International Convergence of Capital Measurement and Capital Standards, issued by the Basel Committee, general disclosures of credit risk provided in this report have a wide range of information about overall credit exposure and may not be necessarily based on information prepared for regulatory purposes.

7 VERIFICATION

The Pillar III disclosures for the year ended 31 December 2014 have been appropriately verified internally, but are not subject to audit by the Bank's external auditor.

8 RISK PROFILE OF ADCB

The Government of Abu Dhabi indirectly owns 58.083% of the Bank's issued share capital via the Abu Dhabi Investment Council. ADCB enjoys strong government support as evidenced by historical capital, liquidity and strategic support by its de-facto owners. The Chairman, Vice-Chairman and four out of nine members of the Board have been nominated by Abu Dhabi Investment Council.

9 CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

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.

	2014		2013	
	Capital charge (AED'000)	**Capital ratio**	Capital charge (AED'000)	Capital ratio
Capital requirements				
1 Credit risk				
Standardised approach	**16,408,829**		16,171,147	
2 Market risk				
Standardised approach	**539,649**		586,809	
3 Operational risk				
Standardised approach	**1,420,270**		866,010	
Total capital requirement	**18,368,749**		17,623,966	
Capital ratios:				
Total for the Bank		**21.03%**		21.21%
Tier 1 for the Bank		**17.01%**		16.62%

10 QUALITATIVE RISK DISCLOSURES

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

11 GROSS CREDIT RISK EXPOSURE BY ASSET CLASS — STANDARDISED APPROACH

AED'000

Asset Class	Gross Exposure: On-balance sheet	Gross Exposure: Off-balance sheet (post CCF)	Gross exposure (On & Off balance sheet post CCF)	Credit risk mitigation (CRM): Exposure pre CRM (net of specific provision and IIS)	Credit risk mitigation (CRM): CRM[1]	Credit risk mitigation (CRM): Net exposure post CCF, CRM and other adjustments	Credit risk weighted assets
2014							
Claims on sovereigns	**31,101,772**	**865,082**	**31,966,854**	**31,966,854**	**33,317**	**31,933,537**	**2,999,476**
Claims on non-commercial public sector enterprises (PSEs)	**2,578,897**	**509,001**	**3,087,898**	**3,087,898**	**–**	**3,087,898**	**–**
Claims on multilateral development banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Claims on financial institutions*	**46,140,405**	**8,705,489**	**54,845,894**	**54,440,656**	**11,314,528**	**43,162,858**	**25,711,220**
Claims on securities firms	**497,402**	**835,617**	**1,333,019**	**1,333,019**	**134,906**	**1,288,884**	**1,194,396**
Claims on government-related entities (GREs)	**21,771,093**	**3,918,434**	**25,689,527**	**25,233,640**	**3,311,709**	**24,722,016**	**21,933,183**
Claims on corporate	**29,065,935**	**12,058,677**	**41,124,612**	**41,015,353**	**9,761,077**	**32,257,942**	**30,537,724**
Claims included in the regulatory retail portfolio	**26,042,208**	**361,250**	**26,403,458**	**26,273,961**	**5,183,173**	**21,800,853**	**16,873,733**
Claims secured by residential property	**5,272,336**	**134,756**	**5,407,092**	**5,405,879**	**1,783**	**5,404,096**	**2,529,857**
Claims secured by commercial real estate	**33,649,722**	**–**	**33,649,722**	**33,072,997**	**3,371,306**	**31,108,226**	**30,689,887**
Past due loans	**5,680,007**	**–**	**5,680,007**	**2,607,702**	**710,823**	**1,896,879**	**2,239,331**
Higher risk categories	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other assets	**2,031,433**	**–**	**2,031,433**	**2,031,433**	**–**	**2,031,433**	**2,031,433**
Claims on securitised assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Credit derivatives (banks selling protection)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total Credit Risk	**203,831,210**	**27,388,306**	**231,219,516**	**226,469,392**	**33,822,622**	**198,694,622**	**136,740,240**
2013[R]							
Claims on sovereigns	27,514,734	517,770	28,032,504	28,032,504	18,657	28,013,846	5,795,124
Claims on non-commercial public sector enterprises (PSEs)	1,282,996	348	1,283,344	1,283,344	352,133	931,211	–
Claims on multilateral development banks	–	–	–	–	–	–	–
Claims on financial institutions*	35,497,444	6,947,770	42,445,214	42,120,523	6,619,591	35,500,932	21,108,472
Claims on securities firms	1,279,927	363,484	1,643,411	1,643,411	3,775	1,639,636	1,690,801
Claims on government-related entities (GREs)	20,485,465	1,823,897	22,309,362	21,693,461	323,516	21,369,945	20,620,829
Claims on corporate	23,018,366	11,655,740	34,674,106	34,591,148	6,154,921	28,473,364	28,501,902
Claims included in the regulatory retail portfolio	23,211,550	336,850	23,548,400	23,371,391	3,925,701	19,449,105	15,612,373
Claims secured by residential property	4,684,655	232,448	4,917,103	4,898,804	14,160	4,884,644	2,339,307
Claims secured by commercial real estate	38,555,462	–	38,555,462	37,973,767	3,804,510	34,170,566	34,170,498
Past due loans	6,438,348	–	6,438,348	3,434,918	731,035	2,703,884	3,202,298
Higher risk categories	–	–	–	–	–	–	–
Other assets	1,717,957	–	1,717,957	1,717,957	–	1,717,957	1,717,957
Claims on securitised assets	–	–	–	–	–	–	–
Credit derivatives (banks selling protection)	–	–	–	–	–	–	–
Total Credit Risk	183,686,904	21,878,307	205,565,211	200,761,228	21,947,999	178,855,090	134,759,561

[1]Eligible guarantees used to substitute credit risk weights are included in CRM.
[R] — Restated.
* — Claims on financial institutions include exposures to all credit institutions, investment firms and finance companies.

12 GROSS CREDIT RISK EXPOSURE BY RATED/UNRATED — STANDARDISED APPROACH

AED'000

Asset Class	Gross exposure Rated	Gross exposure Unrated	Gross exposure (On & Off balance sheet post CCF)	Exposure pre CRM (net of specific provision and IIS)	CRM[1]	Net exposure post CCF, CRM and other adjustments	Credit risk weighted assets
2014							
Claims on sovereigns	31,966,854	–	31,966,854	31,966,854	33,317	31,933,537	2,999,476
Claims on non-commercial public sector enterprises (PSEs)	3,087,898	–	3,087,898	3,087,898	–	3,087,898	–
Claims on multilateral development banks	–	–	–	–	–	–	–
Claims on financial institutions*	40,251,548	14,594,346	54,845,894	54,440,655	11,314,528	43,162,857	25,711,219
Claims on securities firms	422,016	911,003	1,333,019	1,333,019	134,906	1,288,884	1,194,396
Claims on government-related entities (GREs)	7,701,900	17,987,627	25,689,527	25,233,640	3,311,709	24,722,017	21,933,184
Claims on corporate	6,149,937	34,974,675	41,124,612	41,015,353	9,761,077	32,257,942	30,537,724
Claims included in the regulatory retail portfolio	–	26,403,458	26,403,458	26,273,962	5,183,173	21,800,853	16,873,733
Claims secured by residential property	–	5,407,092	5,407,092	5,405,879	1,783	5,404,096	2,529,857
Claims secured by commercial real estate	–	33,649,722	33,649,722	33,072,997	3,371,306	31,108,226	30,689,887
Past due loans	–	5,680,007	5,680,007	2,607,702	710,823	1,896,879	2,239,331
Higher risk categories	–	–	–	–	–	–	–
Other assets	–	2,031,433	2,031,433	2,031,433	–	2,031,433	2,031,433
Claims on securitised assets	–	–	–	–	–	–	–
Credit derivatives (banks selling protection)	–	–	–	–	–	–	–
Total Credit Risk	**89,580,153**	**141,639,363**	**231,219,516**	**226,469,392**	**33,822,622**	**198,694,622**	**136,740,240**
2013[R]							
Claims on sovereigns	28,032,504	–	28,032,504	28,032,504	18,657	28,013,846	5,795,124
Claims on non-commercial public sector enterprises (PSEs)	1,283,344	–	1,283,344	1,283,344	352,133	931,211	–
Claims on multilateral development banks	–	–	–	–	–	–	–
Claims on financial institutions*	30,120,972	12,324,242	42,445,214	42,120,522	6,619,590	35,500,934	21,108,473
Claims on securities firms	1,372,597	270,814	1,643,411	1,643,411	3,775	1,639,636	1,690,801
Claims on government-related entities (GREs)	1,048,072	21,261,291	22,309,363	21,693,461	323,516	21,369,945	20,620,829
Claims on corporate	1,283,135	33,390,970	34,674,105	34,591,148	6,154,921	28,473,364	28,501,902
Claims included in the regulatory retail portfolio	–	23,548,400	23,548,400	23,371,391	3,925,701	19,449,105	15,612,373
Claims secured by residential property	–	4,917,103	4,917,103	4,898,804	14,160	4,884,644	2,339,307
Claims secured by commercial real estate	–	38,555,462	38,555,462	37,973,768	3,804,510	34,170,566	34,170,498
Past due loans	–	6,438,348	6,438,348	3,434,918	731,036	2,703,882	3,202,297
Higher risk categories	–	–	–	–	–	–	–
Other assets	–	1,717,957	1,717,957	1,717,957	–	1,717,957	1,717,957
Claims on securitised assets	–	–	–	–	–	–	–
Credit derivatives (banks selling protection)	–	–	–	–	–	–	–
Total Credit Risk	63,140,624	142,424,587	205,565,211	200,761,228	21,947,999	178,855,090	134,759,561

[1]Eligible guarantees used to substitute credit risk weights are included in CRM.
[R] — Restated.
* — Claims on financial institutions include exposures to all credit institutions, investment firms and finance companies.

13 GROSS CREDIT RISK BY CURRENCY

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments	OTC derivatives	Other off-balance-sheet exposures	Total non-funded	Total
2014									
AED	**114,471,947**	**89,875**	**20,508,153**	**135,069,975**	**2,698,868**	**1,491,579**	**5,921,226**	**10,111,673**	**145,181,648**
USD	**32,089,205**	**18,000,044**	**12,196,307**	**62,285,556**	**3,440,332**	**5,120,766**	**6,108,639**	**14,669,737**	**76,955,293**
EUR	**33,706**	**1,177,759**	**237,378**	**1,448,843**	**–**	**451,531**	**526,749**	**978,280**	**2,427,123**
CHF	**–**	**–**	**30,396**	**30,396**	**–**	**51,019**	**439**	**51,458**	**81,854**
GBP	**17,551**	**–**	**528,209**	**545,760**	**–**	**101,100**	**22,484**	**123,584**	**669,344**
MYR	**–**	**–**	**33,212**	**33,212**	**–**	**45,173**	**–**	**45,173**	**78,385**
Other	**727,832**	**1,839,285**	**3,385,772**	**5,952,889**	**–**	**198,920**	**1,209,481**	**1,408,401**	**7,361,290**
Add: Interest in Suspense	**1,370,999**	**–**	**–**	**1,370,999**	**–**	**–**	**–**	**–**	**1,370,999**
Less: Acceptances	**–**	**–**	**(2,906,420)**	**(2,906,420)**	**–**	**–**	**–**	**–**	**(2,906,420)**
Total	**148,711,240**	**21,106,963**	**34,013,007**	**203,831,210**	**6,139,200**	**7,460,088**	**13,789,018**	**27,388,306**	**231,219,516**
2013[R]									
AED	113,989,831	66,690	14,079,046	128,135,567	1,031,003	1,748,081	4,144,931	6,924,015	135,059,582
USD	22,049,975	19,404,513	5,442,467	46,896,955	593,855	3,647,797	8,223,354	12,465,006	59,361,961
EUR	18,636	546,397	760,183	1,325,216	–	153,559	548,304	701,863	2,027,079
CHF	–	–	214,865	214,865	–	206,961	–	206,961	421,826
GBP	18,817	–	484,610	503,427	–	113,392	28,758	142,150	645,577
MYR	–	–	35,382	35,382	–	81,784	–	81,784	117,166
Other	2,461,358	520,719	4,866,067	7,848,144	–	64,495	1,292,033	1,356,528	9,204,672
Add: Interest in Suspense	1,061,155	–	–	1,061,155	–	–	–	–	1,061,155
Less: Acceptances	–	–	(2,333,807)	(2,333,807)	–	–	–	–	(2,333,807)
Total	139,599,772	20,538,319	23,548,813	183,686,904	1,624,858	6,016,069	14,237,380	21,878,307	205,565,211

[R] — Restated.

14 GROSS CREDIT RISK BY GEOGRAPHY

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments	OTC derivatives	Other off-balance-sheet exposures	Total non-funded	Total
2014									
Domestic (UAE)	132,990,814	8,760,018	27,478,554	169,229,386	5,947,751	3,098,221	11,828,626	20,874,598	190,103,984
Other GCC countries	3,618,299	3,377,627	3,477,360	10,473,286	77,485	4,503	531,793	613,781	11,087,067
Other Arab countries	234,954	282,309	4,670	521,933	–	6,425	110	6,535	528,468
Asia	8,146,840	2,515,360	962,496	11,624,696	100,321	139,878	462,637	702,836	12,327,532
Europe	1,377,743	2,591,094	4,223,835	8,192,672	–	4,198,064	678,541	4,876,605	13,069,277
USA	191,650	2,819,635	303,267	3,314,552	–	12,997	127,194	140,191	3,454,743
Rest of the world	779,941	760,920	469,245	2,010,106	13,643	–	160,117	173,760	2,183,866
Add: Interest in Suspense	1,370,999	–	–	1,370,999	–	–	–	–	1,370,999
Less: Acceptances	–	–	(2,906,420)	(2,906,420)	–	–	–	–	(2,906,420)
Total	**148,711,240**	**21,106,963**	**34,013,007**	**203,831,210**	**6,139,200**	**7,460,088**	**13,789,018**	**27,388,306**	**231,219,516**
2013[R]									
Domestic (UAE)	131,307,617	10,502,698	18,485,578	160,295,893	1,614,430	2,085,564	11,640,655	15,340,649	175,636,542
Other GCC countries	2,823,841	2,620,186	4,485,343	9,929,370	–	2,171	741,014	743,185	10,672,555
Other Arab countries	33,378	–	22,615	55,993	–	605	24,752	25,357	81,350
Asia	2,310,642	867,296	711,372	3,889,310	–	33,868	854,261	888,129	4,777,439
Europe	1,202,961	3,199,781	1,519,306	5,922,048	–	3,613,913	607,354	4,221,267	10,143,315
USA	391	2,951,625	608,683	3,560,699	10,428	204,082	128,366	342,876	3,903,575
Rest of the world	859,787	396,733	49,723	1,306,243	–	75,866	240,978	316,844	1,623,087
Add: Interest in Suspense	1,061,155	–	–	1,061,155	–	–	–	–	1,061,155
Less: Acceptances	–	–	(2,333,807)	(2,333,807)	–	–	–	–	(2,333,807)
Total	139,599,772	20,538,319	23,548,813	183,686,904	1,624,858	6,016,069	14,237,380	21,878,307	205,565,211

[R] — Restated.

15 GROSS CREDIT RISK BY RESIDUAL MATURITY

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments	OTC derivatives	Other off-balance-sheet exposures	Total non-funded	Total
2014									
Less than 3 months	20,025,567	2,185,274	26,850,719	49,061,560	496,085	1,185,435	9,100,727	10,782,247	59,843,807
3 months to less than 6 months	3,880,910	2,173,418	5,253,783	11,308,111	254,536	223,909	1,165,584	1,644,029	12,952,140
6 months to less than 1 year	4,559,945	3,259,557	3,388,445	11,207,947	2,231,596	193,424	2,042,633	4,467,653	15,675,600
1 year to 3 years	19,453,338	7,113,340	4,514	26,571,192	2,157,834	1,342,320	1,344,797	4,844,951	31,416,143
Over 3 years	99,420,481	6,375,374	1,421,966	107,217,821	999,149	4,515,000	135,277	5,649,426	112,867,247
Add: Interest in Suspense	1,370,999	–	–	1,370,999	–	–	–	–	1,370,999
Less: Acceptances	–	–	(2,906,420)	(2,906,420)	–	–	–	–	(2,906,420)
Total	148,711,240	21,106,963	34,013,007	203,831,210	6,139,200	7,460,088	13,789,018	27,388,306	231,219,516
2013[R]									
Less than 3 months	18,530,603	706,805	20,589,265	39,826,673	68,292	363,098	11,240,110	11,671,500	51,498,173
3 months to less than 6 months	6,329,907	2,443,005	2,928,632	11,701,544	56,136	120,334	758,047	934,517	12,636,061
6 months to less than 1 year	2,678,998	3,209,989	998,711	6,887,698	92,945	250,361	1,619,846	1,963,152	8,850,850
1 year to 3 years	16,632,585	9,959,421	–	26,592,006	1,141,408	1,018,250	579,353	2,739,011	29,331,017
Over 3 years	94,366,524	4,219,099	1,366,012	99,951,635	266,077	4,264,026	40,024	4,570,127	104,521,762
Add: Interest in Suspense	1,061,155	–	–	1,061,155	–	–	–	–	1,061,155
Less: Acceptances	–	–	(2,333,807)	(2,333,807)	–	–	–	–	(2,333,807)
Total	139,599,772	20,538,319	23,548,813	183,686,904	1,624,858	6,016,069	14,237,380	21,878,307	205,565,211

[R] — Restated.

16 GROSS CREDIT RISK BY ECONOMIC SECTOR

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments	OTC derivatives	Other off-balance-sheet exposures	Total non-funded	Total
2014									
Agriculture	208,394	–	–	208,394	–	–	12,963	12,963	221,357
Energy	3,381,224	–	–	3,381,224	353,692	12,426	527,955	894,073	4,275,297
Trading	3,475,611	–	–	3,475,611	416,773	26,624	1,347,357	1,790,754	5,266,365
Real estate & hospitality	48,829,006	22,396	615,778	49,467,180	3,747,969	64,731	5,879,830	9,692,530	59,159,710
Transport	2,189,191	–	–	2,189,191	29,328	722,276	152,236	903,840	3,093,031
Personal	34,221,066	93,962	–	34,315,028	247,537	30,818	66,015	344,370	34,659,398
Government & public sector entities	30,709,795	10,422,767	15,092,192	56,224,754	–	57,892	12,596	70,488	56,295,242
Financial institutions	20,085,616	10,524,785	16,019,461	46,629,862	232,840	4,965,906	4,412,665	9,611,411	56,241,273
Manufacturing	2,474,109	–	–	2,474,109	241,477	1,246,980	582,051	2,070,508	4,544,617
Services	1,221,080	43,053	–	1,264,133	170,824	153,322	584,251	908,397	2,172,530
Others	545,149	–	5,191,996	5,737,145	698,760	179,113	211,099	1,088,972	6,826,117
Add: Interest in Suspense	1,370,999	–	–	1,370,999	–	–	–	–	1,370,999
Less: Acceptances	–	–	(2,906,420)	(2,906,420)	–	–	–	–	(2,906,420)
Total	**148,711,240**	**21,106,963**	**34,013,007**	**203,831,210**	**6,139,200**	**7,460,088**	**13,789,018**	**27,388,306**	**231,219,516**
2013[R]									
Agriculture	215,777	–	–	215,777	–	–	85,084	85,084	300,861
Energy	710,656	–	–	710,656	77,485	327,963	423,652	829,100	1,539,756
Trading	2,327,883	90,832	–	2,418,715	55,095	–	2,345,699	2,400,794	4,819,509
Real estate & hospitality	52,437,689	1,131	560,690	52,999,510	726,828	360,580	4,327,601	5,415,009	58,414,519
Transport	1,231,984	–	–	1,231,984	358	312,112	278,908	591,378	1,823,362
Personal	30,290,585	–	–	30,290,585	365,953	6,035	515,441	887,429	31,178,014
Government & public sector entities	32,250,697	10,435,655	9,961,206	52,647,558	129,624	31,220	814,233	975,077	53,622,635
Financial institutions	14,832,872	10,010,701	11,344,700	36,188,273	20,691	4,230,796	1,938,617	6,190,104	42,378,377
Manufacturing	1,309,765	–	–	1,309,765	187,470	3,802	1,012,757	1,204,029	2,513,794
Services	1,939,362	–	–	1,939,362	61,354	726,984	2,486,302	3,274,640	5,214,002
Others	991,347	–	4,016,024	5,007,371	–	16,577	9,086	25,663	5,033,034
Add: Interest in Suspense	1,061,155	–	–	1,061,155	–	–	–	–	1,061,155
Less: Acceptances	–	–	(2,333,807)	(2,333,807)	–	–	–	–	(2,333,807)
Total	139,599,772	20,538,319	23,548,813	183,686,904	1,624,858	6,016,069	14,237,380	21,878,307	205,565,211

[R] — Restated.

17 CREDIT RISK AND RISK MEASUREMENT AND MITIGATION POLICIES

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

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

The Credit Risk Management Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be secured to mitigate credit risk, including valuation parameters, review frequency and independence of valuation. The acceptable collateral types are set out in the credit policy of the Bank, which is approved by the BRCC. The type, liquidity and realisation costs on collateral held are key determinants of the LGD percentage that is assigned to a credit risk exposure.

The Bank primarily has the following categories of collateral:

LOANS AND ADVANCES

(a) Real estate collateral — The Bank accepts real estate collateral (residential, commercial and mixed use) to either back corporate exposures or as income-producing real estate as the repayment source for the facility. Both of these segments are treated separately and governed by separate policies. In all cases, real estate collaterals are subject to regular re-evaluation by Bank-approved external valuers and mortgage registration with the appropriate regulatory authorities. In lending new facilities the Bank has a policy to obtain multiple valuations (based on the facility size) to ensure conservatism in determining LTV. As at 31 December 2014, the Bank has total mortgage collateral of AED 78,298 mn (2013: AED 76,003 mn, almost all of it in the UAE and over 50% in Abu Dhabi and the rest across other emirates.

(b) Financial instruments collateral — Only publicly listed company shares are accepted as collateral for corporate and high-net worth individual facilities. There is a process to evaluate mark to market on a daily basis and this affects the drawing power against these facilities. All shares collaterals are pledged either at the market or at the broker level. These would also include a small amount of bonds and mutual funds. As at 31 December 2014, the Bank has total share collateral of AED 34,544 mn (2013: AED 33,340 mn), predominantly listed in the Abu Dhabi Stock Exchange.

(c) Cash collateral — The Bank also takes a small amount of cash collateral primarily from SME customers and as trade margins for trade finance transactions. As at 31 December 2014, the Bank has AED 7,272 mn in cash and near-cash collaterals.

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

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

(f) Charge over assets being financed (e.g. vehicles, equipment) — For asset-backed financing, the asset being financed is usually secured as a collateral. The total value of such collateral was AED 10,467 mn as at 31 December 2014 (2013: AED 5,249 mn).

TREASURY PRODUCTS

The Bank mitigates its credit exposure for Treasury products by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Counterparty credit risk is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank mitigates its counterparty credit risk exposure from dealing in global market products through the use of Credit Support Annexes (CSAs). CSAs require the counterparty (or the Group) to post collateral when mark-to-market positions exceed threshold and minimum transfer amounts. 73% of our Treasury counterparties are covered by ISDA and/or CSA. There is a regular mark-to-market process and all valuation methodologies are approved by the Market Risk department. The Bank currently holds AED 67 mn of collateral posted with us for CSA purposes. In general the Bank does not use credit derivatives or credit default swaps as a credit risk mitigant.

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

- Netting — applicable only with legally enforceable netting agreements in place. However, to use this mitigant, the ability to systematically calculate net exposure must be demonstrated.
- Collateral — either the simple or comprehensive approaches may be applied. ADCB uses the comprehensive approach.
- Guarantees and credit derivatives — these mitigants can be used provided they are direct, explicit, irrevocable and unconditional.

The Central Bank of UAE must be satisfied that the Bank has suitable risk management tools in place to adopt the use of such mitigants.

ELIGIBLE CREDIT RISK MITIGANTS USED IN CAPITAL CALCULATION

AED'000

Type of credit risk mitigants	2014	2013[R]
Exposure reduction:		
Cash	4,044,467	1,970,868
Other eligible financial collaterals (main index securities and cash)	20,160,837	17,107,640
Netting agreements	3,569,466	2,827,631
Credit substitution:	27,774,770	21,906,139
Guarantees	6,047,852	41,860
Total eligible credit risk mitigants	33,822,622	21,947,999

R — Restated.

ELIGIBLE CREDIT RISK MITIGANTS AND RWA RELIEF

AED'000

	2014	2013[R]
RWA pre CRM	166,308,921	154,698,069
RWA relief:		
On-balance-sheet netting	(1,623,539)	(1,231,679)
Eligible Financial Collateral (cash and securities)	(22,836,282)	(18,685,899)
Guarantees (credit substitution)	(5,108,860)	(20,930)
RWA after Credit Risk Mitigation	136,740,240	134,759,561

R — Restated.

18 IMPAIRMENT ANALYSIS

PORTFOLIO MONITORING AND IDENTIFYING CREDIT RISK AND IMPAIRMENT

Credit Risk Management monitors the portfolio through system generated MIS and periodic reviews giving due consideration to industry and general economic trends, market feedback, and media reports. Movement of the individual and collective impairment allowance on loans and advances:

AED'000

	2014	2013
Opening balance of impairment allowance		
Add: Charge for the year	6,889,947	6,463,720
a. Individual impairment	714,991	1,170,603
b. Collective impairment	325,560	383,517
Less: Net amounts written off	(718,638)	(795,407)
Less: Recoveries during the year	(229,352)	(187,964)
Less: Discount unwind/Currency translation	(204,765)	(144,522)
Closing balance of impairment allowance	6,777,743	6,889,947

PORTFOLIO MONITORING AND IDENTIFYING CREDIT RISK AND IMPAIRMENT

Impaired loans by geography

AED'000

	Overdue (Gross of interest in suspense & individual impairment)			Impairment		Adjustments			
	Less than 90 days	90 days and above	Total	Individual	Collective	Write-offs	Write-backs	Interest in suspense	Total impaired assets (net of IIS and individual impairment)
2014									
Domestic (UAE)	–	5,336,643	5,336,643	3,566,526	–	–	–	1,214,731	555,386
Other GCC countries	–	556,792	556,792	266,354	–	–	–	137,914	152,524
Other Arab countries	–	–	–	–	–	–	–	–	–
Asia	–	13,500	13,500	12,675	–	–	–	314	511
Europe	–	2	2	–	–	–	–	2	–
Rest of the world	–	74,937	74,937	11,241	–	–	–	18,037	45,658
Total	–	5,981,874	5,981,874	3,856,796	2,920,947	–	–	1,370,999	754,080
2013[R]									
Domestic (UAE)	–	6,091,404	6,091,404	3,776,009	–	–	–	920,446	1,394,949
Other GCC countries	–	642,392	642,392	460,178	–	–	–	131,382	50,833
Other Arab countries	–	119	119	–	–	–	–	20	99
Asia	–	15,101	15,101	2,505	–	–	–	1,035	11,561
Europe	–	274	274	262	–	–	–	12	0
Rest of the world	–	34,354	34,354	11,241	–	–	–	8,260	14,852
Total	–	6,783,644	6,783,644	4,250,195	2,639,752	–	–	1,061,155	1,472,294

[R] — Restated.

Impaired loans by economic activities

AED'000

	Overdue (Gross of interest in suspense & individual impairment)			Impairment		Adjustments			
	Less than 90 days	90 days and above	Total	Individual	Collective	Write-offs	Write-backs	Interest in suspense	Total impaired assets (net of IIS and individual impairment)
2014									
Agriculture	–	234,683	234,683	98,975	–	–	–	36,779	98,929
Energy	–	7	7	–	–	–	–	1	7
Trading	–	22,582	22,582	210	–	–	–	4,558	17,814
Real Estate & Hospitality	–	1,742,004	1,742,004	339,737	–	–	–	420,138	982,129
Transport	–	276,460	276,460	109,516	–	–	–	51,829	115,115
Personal	–	3,022,101	3,022,101	1,529,674	–	–	–	653,648	838,779
Government & Public Sector Entities	–	–	–	–	–	–	–	–	–
Financial institutions	–	330,589	330,589	–	–	–	–	68,211	262,377
Manufacturing	–	32,212	32,212	12,880	–	–	–	3,140	16,193
Services	–	20,846	20,846	2	–	–	–	3,459	17,385
Others	–	300,390	300,390	1,765,803	–	–	–	129,236	(1,594,648)
Total	–	5,981,874	5,981,874	3,856,796	2,920,947	–	–	1,370,999	754,079
2013[R]									
Agriculture	–	219,021	219,021	29,836	–	–	–	13,397	175,788
Energy	–	21	21	–	–	–	–	6	15
Trading	–	69,853	69,853	16,234	–	–	–	20,507	33,112
Real Estate & Hospitality	–	2,708,070	2,708,070	738,225	–	–	–	370,797	1,599,048
Transport	–	255,627	255,627	76,951	–	–	–	35,348	143,329
Personal	–	2,770,511	2,770,511	1,484,626	–	–	–	434,742	851,143
Government & Public Sector Entities	–	–	–	–	–	–	–	–	–
Financial institutions	–	428,635	428,635	52,444	–	–	–	59,554	316,637
Manufacturing	–	28,505	28,505	2,692	–	–	–	1,856	23,956
Services	–	21,195	21,195	34	–	–	–	12,170	8,992
Others	–	282,206	282,206	1,849,153	–	–	–	112,778	(1,679,726)
Total	–	6,783,644	6,783,644	4,250,195	2,639,752	–	–	1,061,155	1,472,294

[R] — Restated.

19 MARKET RISK

CAPITAL CALCULATION

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

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

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

CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDISED APPROACH

AED'000

	2014	2013
Interest rate risk	**455,614**	342,640
Equity position risk	**–**	179,512
Foreign exchange risk	**29,138**	28,232
Commodity risk	**26,090**	15,994
Options risk	**28,807**	20,431
Total Capital Requirement	**539,649**	586,809

AED'000

	2014		2013	
	Risk-weighted assets	**Capital requirements**	Risk-weighted assets	Capital requirements
Interest rate risk — trading book				
Specific risk	**67,425**	**8,091**	59,017	7,082
General risk — maturity based	**3,729,355**	**447,523**	2,796,314	335,558
General risk — duration based	**–**	**–**	–	–
Foreign exchange risk	**242,813**	**29,138**	235,266	28,232
Equity exposure risk — trading book	**–**	**–**	–	–
General risk	**–**	**–**	747,965	89,756
Specific risk	**–**	**–**	747,965	89,756
Commodity risk — trading book	**217,415**	**26,090**	133,286	15,994
Options risk	**–**	**–**	–	–
Simplified approach	**–**	**–**	–	–
Intermediate approach	**240,071**	**28,807**	170,259	20,431
Total market risk capital charge	**4,497,079**	**539,649**	4,890,072	586,809

20 EQUITY POSITION IN BANKING BOOKS

AED'000

	2014		2013[R]	
	Publicly traded/quoted	Privately held/un-quoted	Publicly traded/quoted	Privately held/ un-quoted
Equities	166,659	378,216	1,028	315,425
Collective investment schemes	–	–	–	–
Any other investments	–	–	–	–
Total equity position	**166,659**	**378,216**	1,028	315,425

[R] — Restated.

AED'000

	2014	2013[R]
Realised, unrealised and latent revaluation gains (losses) during the year gains (losses)		
Realised gains (losses) from sales and liquidations	14,572	(1,911)
Unrealised gains (losses) recognised in the balance sheet but not through profit and loss account	44,183	12,721
Latent revaluation gains (losses) for investment recorded at cost but not recognised in balance sheet or profit or loss account	–	–
Total	**58,755**	10,810

[R] — Restated.

AED'000

	2014	2013[R]
Items in table above included in Tier 1/Tier 2 capital		
Amount included in Tier 1 capital	14,572	(1,911)
Amount included in Tier 2 capital	19,882	5,724
Total	**34,454**	(5,127)
Capital requirements by Equity Groupings		
Strategic investments	–	–
Available-for-sale	98,078	56,962
Held-for-trading	–	–
Total Capital Requirement	**98,078**	56,962

[R] — Restated.

21 OPERATIONAL RISK

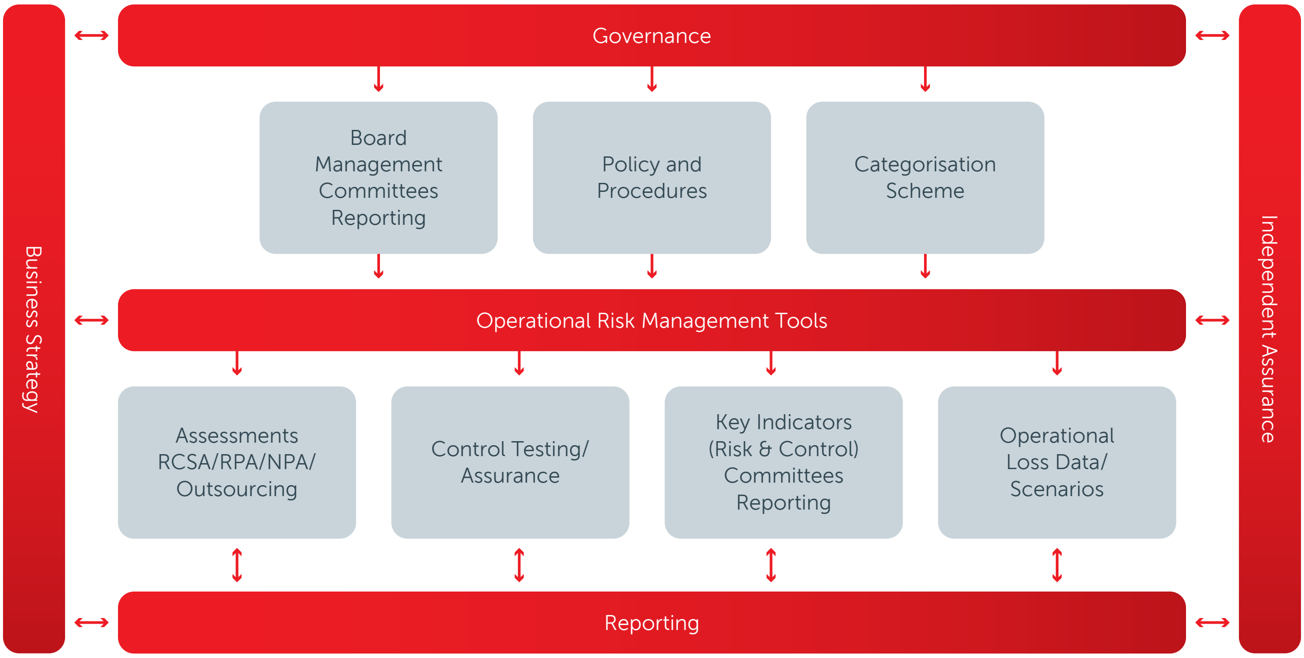
The Bank defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." Operational risks can expose the Bank to potentially large losses as well. Whilst the Bank cannot eliminate all operational risks, it has developed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

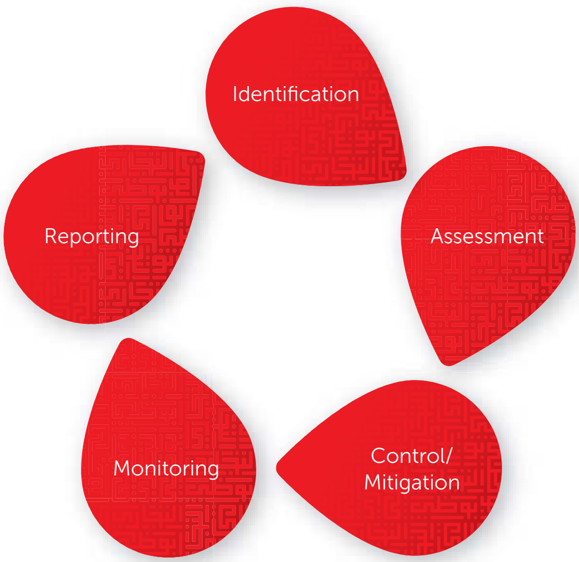
The ultimate responsibility for Bank-wide operational risk profile, as well as compliance with laws and regulations, rests with the Board of Directors (BoD), even though this responsibility has been delegated to the senior management. Ongoing management of operational risk is coordinated by the Operational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

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

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

For operational risk measurement, ADCB follows the standardised approach (TSA) under Basel II. The capital charge for the year ended 31 December 2013 was AED 1,420,270 thousand (2013: AED 866,010 thousand).





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

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

RISK IDENTIFICATION, MONITORING AND REPORTING

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

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

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

FRAUD RISK

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

BUSINESS CONTINUITY MANAGEMENT

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

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

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