

**Abu Dhabi Commercial Bank PJSC**  
**BASEL III – PILLAR III**  
**2018**

بنك أبوظبي التجاري  
**ADCB** 

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**1 SUMMARY OF DIFFERENCES BETWEEN PILLAR III DISCLOSURES AND RISK REVIEW IN THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The details included in this report are from a regulatory perspective on certain aspects of credit, market and operational risk. The quantitative disclosures will not be directly comparable with the risk review in the audited consolidated financial statements, as the former are largely based on the Basel III/II 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 such as the off-balance-sheet exposures which are disclosed pre-credit conversion factors (CCFs).

Topic	Risk review in the audited consolidated financial statements	Pillar III disclosures
<b>Basis of requirements</b>	The Bank’s annual report is prepared in accordance with the requirements of IFRS and UAE Federal Law No. 2 of 2015.	<p>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 the Central Bank of the UAE guidelines issued in November 2009.</p> <p>The capital supply is determined based on Basel III requirements, which have been implemented in the UAE through the Central Bank of the UAE guidelines issued in February 2017.</p>
<b>Basis of preparation</b>	<p>The quantitative credit risk disclosures in the risk review section are set out based on IFRS.</p> <p>Loans and advances are analysed net of impairment and interest in suspense, and off-balance-sheet exposures are considered at maximum exposure levels.</p> <p>Market risk disclosures are presented using VaR methodology and sensitivity analysis for the trading and non-trading books.</p>	<p>Provides details from a regulatory perspective on credit, market and operational risk. The capital calculation and the disclosures are based on the standardised approach as recommended by the Central Bank of UAE.</p> <p>Loans and advances are analysed gross of impairment, and off-balance-sheet exposures are disclosed at post-CCF levels.</p> <p>Market risk and operational risk disclosures are based on the capital required.</p>

**2 SUMMARY OF CROSS-REFERENCES BETWEEN PILLAR III DISCLOSURES AND RISK REVIEW IN THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Topic	Risk review in the audited consolidated financial statements	Pillar III disclosures
<b>Credit risk management and measurement, and risk-grading</b>	<p>An overview of credit, liquidity and market risk management and measurement along with the quantitative disclosures are set out in Notes 42, 44 and 46 to the audited financial statements, respectively.</p> <p>Maximum exposure to credit risk and credit risk concentration are provided in Notes 42.1 and 42.4 to the audited consolidated financial statements.</p> <p>Internal credit risk grading analysis provided by business for loans neither past due nor impaired and available-for-sale investments is provided in Note 42.3 to the audited consolidated financial statements.</p> <p>Note 51 to the audited consolidated financial statements provides the overall capital adequacy of the Bank split into Tier 1 and Tier 2 ratios.</p>	<p>A detailed analysis of credit risk exposure and risk-weighted assets (RWAs) calculated according to the standardised approach is set out in sections 11 and 12 of this report.</p> <p>A more detailed analysis of credit risk exposure pre- and post-credit risk mitigants (CRMs) and after applying credit conversion factors (CCFs) to the off-balance-sheet exposure is disclosed in sections 11 and 12 of this report.</p> <p>Section 12 of this report provides an indicative mapping of the Bank’s rated and unrated exposure.</p> <p>Minimum regulatory capital requirements for credit, market and operational risk are set out in section 6 of this report.</p>
<b>Credit risk mitigation</b>	<p>An overview of CRM is provided in Note 42.5 to the audited consolidated financial statements.</p>	<p>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.</p>
<b>Concentration of credit risk</b>	<p>Disclosures on concentration of credit risk by geography and by economic and industry sector are provided in Note 42.4 to the audited consolidated financial statements.</p>	<p>Disclosures on concentration of credit risk by currency, geography, residual maturity and economic sector calculated based on the Basel II rules are provided in sections 13, 14, 15 and 16 of this report.</p>
<b>Credit risk management and impairment allowance</b>	<p>Provisioning approach and financial assets by stages with expected credit loss are set out in Note 42.3 to the audited consolidated financial statements.</p>	<p>Disclosures of impaired loans, impairment balance and interest in suspense by geography and economic sector are set out in section 18 of this report. Qualitative and quantitative disclosures as required by paragraph 825 of International Convergence of Capital Measurement and Capital Standards, issued by the Basel Committee, have been disclosed in Note 42 to the audited consolidated financial statements.</p>
<b>Market risk</b>	<p>A description of market risk management and measurement, along with quantitative disclosures on VaR and sensitivity analysis, is set out in Note 46 to the audited consolidated financial statements.</p>	<p>Sections 19 and 20 of this report provide quantitative disclosures of capital requirements for market risk (including equity risk).</p>
<b>Operational risk</b>	<p>Description of operational risk management is set out in Note 47 to the audited consolidated financial statements.</p>	<p>A detailed description of operational risk, including information system and regulatory risk faced by the Bank, is set out in section 21.</p>
<b>Key management compensation</b>	<p>Disclosures on remuneration to senior management/key management personnel are set out in our annual report corporate governance section and Note 36 to the audited consolidated financial statements.</p>	

**3 COMPARISON BETWEEN THE AUDITED CONSOLIDATED BALANCE SHEET AND CREDIT RISK EXPOSURE AT DEFAULT AS AT 31 DECEMBER 2018**

AED'000

Assets	Assets per Bank's statement of financial position	Effect of regulatory adjustments*	Assets subject to market risk only	Equity in Banking book	Regulatory balance sheet for credit risk (Gross exposure pre-CCF and CRM)	Individual impairment 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 (CRMs)*	Credit risk EAD after all adjustments
<b>2018</b>										
Cash and balances with central banks	19,589,957	228	-	-	19,590,185	-	19,590,185	-	-	19,590,185
Deposits and balances due from banks	19,627,076	34,327	-	-	19,661,403	-	19,661,403	-	-	19,661,403
Reverse-repo placements	2,203,800	-	-	-	2,203,800	-	2,203,800	-	-	2,203,800
Trading securities	60,134	-	(60,134)	-	-	-	-	-	-	-
Derivative financial instruments	4,447,247	-	(4,447,247)	-	-	-	-	12,004,219	(6,825,229)	5,178,990
Investment securities	52,362,234	-	-	(402,079)	51,960,155	-	51,960,155	-	-	51,960,155
Loans and advances, net	166,425,762	8,342,400	-	-	174,768,162	(4,584,454)	170,183,708	34,083,536	(25,592,313)	178,674,931
Investment in associate	205,158	(205,158)	-	-	-	-	-	-	-	-
Investment properties	576,671	-	-	-	576,671	-	576,671	-	-	576,671
Other assets	13,349,694	(10,008,770)	-	-	3,340,924	-	3,340,924	-	-	3,340,924
Property and equipment, net	982,605	-	-	-	982,605	-	982,605	-	-	982,605
Intangible assets	279,830,338	(1,836,973)	(4,507,381)	(402,079)	273,083,905	(4,584,454)	268,499,451	46,087,755	(32,417,542)	282,169,664

\*Effect of regulatory adjustments include adjustments for impairment, acceptances (treated off-balance-sheet), investment in associates and intangible assets.

\*\*Guarantees amounting to AED 5,029,912 thousand are excluded, as they are used to substitute credit risk weights and are not set off against the exposure value.

AED'000

Assets	Assets per Bank's statement of financial position	Effect of regulatory adjustments*	Assets subject to market risk only	Equity in Banking book	Regulatory balance sheet for credit risk (Gross exposure pre-CCF and CRM)	Individual impairment 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 (CRMs)*	Credit risk EAD after all adjustments
<b>2017</b>										
Cash and balances with central banks	19,997,123	-	-	-	19,997,123	-	19,997,123	-	-	19,997,123
Deposits and balances due from banks	11,451,956	127,246	-	-	11,579,202	-	11,579,202	-	-	11,579,202
Reverse-repo placements	98,578	-	-	-	98,578	-	98,578	-	-	98,578
Trading securities	485,301	-	(485,301)	-	-	-	-	-	-	-
Derivative financial instruments	3,820,364	-	(3,820,364)	-	-	-	-	10,202,918	(3,004,769)	7,198,149
Investment securities	49,191,657	-	-	(496,970)	48,694,687	-	48,694,687	-	-	48,694,687
Loans and advances, net	163,282,230	7,297,197	-	-	170,579,427	(3,856,600)	166,722,827	32,947,430	(22,641,152)	177,029,105
Investment in associate	205,372	(205,372)	-	-	-	-	-	-	-	-
Investment properties	634,780	-	-	-	634,780	-	634,780	-	-	634,780
Other assets	14,857,038	(12,631,735)	-	-	2,225,303	-	2,225,303	-	-	2,225,303
Property and equipment, net	960,096	-	-	-	960,096	-	960,096	-	-	960,096
Intangible assets	18,800	(18,800)	-	-	-	-	-	-	-	-
	265,003,295	(5,431,464)	(4,305,665)	(496,970)	254,769,196	(3,856,600)	250,912,596	43,150,348	(25,645,921)	268,417,023

\*Effect of regulatory adjustments include adjustments for impairment, acceptances (treated off-balance-sheet), investment in associates and intangible assets.

\*\*Guarantees amounting to AED 6,584,019 thousand are excluded, as they are used to substitute credit risk weights and are not set off against the exposure value

EAD – Exposure at default  
 CCF – Credit conversion factor  
 CRM – Credit risk mitigants  
 OTC – Over the counter  
 PFE – Potential future exposure

#### 4 OVERVIEW OF BASEL II/III REQUIREMENTS

The Bank complies with the Basel III framework for capital supply and Basel II standardised approach for capital demand which have been implemented in the UAE through the Central Bank of the UAE guidelines issued in February 2017 and November 2009 respectively. Basel requirements are 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 II. 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 the 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 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 ADCB 2018 Annual Report and the 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, Foundation and Advanced:

► **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 Basel II 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 BASEL III OVERVIEW

In December 2010 (revised in June 2011), the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banking organisations to hold capital in excess of regulatory minimums. In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

To achieve broader macro-prudential goal of protecting the banking sector from the periods of excess aggregate credit growth and in addition to the capital conservation buffer (CCB) requirement, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCyB requirement will vary between 0% - 2.5% of risk weighted assets and will be communicated by the Central Bank with adequate notice period. Further, to reduce risks related to the failure of domestic systemically relevant institutions, the Central Bank of the UAE has introduced domestic systemically important banks (D-SIB) buffer. ADCB has been listed as a D-SIB and is required to maintain a D-SIB buffer of 0.5% from 2019.

To enable banks to meet the new standards, the notification contains transitional arrangements commencing January 1, 2017 through January 1, 2019. Transitional requirements result in a phase-in of a capital conservation and D-SIB buffers

over 3 years. As of January 2019, the banks will be required to meet new minimum requirements related to risk-weighted assets as mentioned below:

Transitional arrangement	2017	2018	2019
<b>CET 1</b>			
- base rate	7.00%	7.00%	7.00%
- capital conservation buffer	1.25%	1.88%	2.50%
- DSIB buffer	0.25%	0.38%	0.50%
<b>CET1 including buffer and surcharge</b>	<b>8.50%</b>	<b>9.25%</b>	<b>10.00%</b>
<b>Tier 1 (CET1+Additional Tier 1)</b>	<b>10.00%</b>	<b>10.75%</b>	<b>11.50%</b>
<b>Minimum capital requirement (CAR)</b>	<b>12.00%</b>	<b>12.75%</b>	<b>13.50%</b>

Further, enhanced regulatory capital rules issued in February 2017 are supported by accompanying standards which were published by the Central Bank on 17 January 2018 in its Circular No. 28/2018 titled "Standard re Capital Supply" and are effective from 31 December 2017. The Accompanying Standards elaborate on the supervisory expectations of the Central Bank, as set out in the February 2017 Regulations, with respect to the relevant Basel III capital adequacy requirements and how they will be applied by the Central Bank to banks in the UAE.

In addition, Basel III introduces a minimum 3% leverage ratio and two required liquidity ratios. The Liquidity Coverage Ratio requires a bank to hold sufficient high quality liquid assets to cover its total net cash flows over 30 days; the Net Stable Funding Ratio requires the available amount of stable funding to exceed the required amount of stable funding over a one-year period of extended stress.

In May 2015, the Central Bank of the UAE published "Regulations relating to Liquidity at Banks". Starting on 1 January 2015, minimum liquidity coverage will be 60%. This coverage will increase by 10% each year to reach 100% by 1 January 2019. The NSFR requirement 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.

As at 31 December 2018, ADCB's liquidity coverage ratio (LCR) was 186% which is well above BCBS standard requirements.

ADCB monitors its position against LCR and net stable funding ratio (NSFR) requirements to ensure the Bank's ability to comply with the standards.

#### Impact on ADCB

The UAE Central Bank has set a total capital adequacy ratio of 12.75% and Tier 1 ratio of 10.75% (including CCB and D-SIB buffers) for the year 2018. At the end of 2018, ADCB met the minimum requirements with a total capital ratio of 17.26% and Tier 1 ratio of 15.28%, adjusted for proposed dividend the total capital ratio is 16.14% and Tier-1 ratio is 14.16%. Additionally, the composition of the Bank's capital is of high-quality equity based with lesser reliance on Tier 2 capital supply (i.e. hybrid instruments).

ADCB monitors its position against the capital adequacy requirements to ensure the Bank's ability to comply with the regulatory guidelines.

#### Basis of consolidation

The Bank's Pillar III disclosures are presented on a consolidated basis for the year ended 31 December 2018. 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 2018 have been appropriately verified internally, but are not subject to audit by the Bank's external auditor.

### 8 OWNERSHIP

The Government of Abu Dhabi indirectly owns 62.52% 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. As at 31 December 2018, the Chairman, Vice-Chairman and four out of nine members of the Board were nominated by the 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, 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.

	2018			2017		
	RWA (AED'000)*	Capital charge (Pre-dividend) (AED'000)**	Capital charge (Post-dividend) (AED'000)**	RWA (AED'000)	Capital charge (Pre-dividend) (AED'000)	Capital charge (Post-dividend) (AED'000)
<b>Capital requirements</b>						
<b>1 Credit risk</b>						
Standardised approach	188,748,218	24,065,398	24,065,398	177,020,968	21,242,516	21,242,516
<b>2 Market risk</b>						
Standardised approach	8,396,389	1,070,540	1,070,540	10,718,941	1,286,273	1,286,273
<b>3 Operational risk</b>						
Standardised approach	15,262,739	1,945,999	1,945,999	14,529,229	1,743,508	1,743,508
<b>Total capital requirement</b>	<b>212,407,346</b>	<b>27,081,937</b>	<b>27,081,937</b>	<b>202,269,138</b>	<b>24,272,297</b>	<b>24,272,297</b>
<b>Capital ratios:</b>						
<b>Total for the Bank (Capital Adequacy Ratio)</b>		<b>17.26%</b>	<b>16.14%</b>		19.09%	18.02%
<b>Common Equity Tier 1 (CET1)</b>		<b>13.40%</b>	<b>12.28%</b>		13.96%	12.88%
<b>Tier I</b>		<b>15.28%</b>	<b>14.16%</b>		15.92%	14.85%
<b>Tier II</b>		<b>1.98%</b>	<b>1.98%</b>		3.17%	3.17%

\* Includes Equity RWA

\*\* Capital charge including buffer requirements

Qualitative and quantitative disclosures on capital structure as required by paragraph 822 of the International Convergence of Capital Measurement and Capital Standards, issued by the Basel Committee, have been disclosed in Note 51 to the audited consolidated financial statements.

## 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 ADCB 2018 Annual Report and Notes 41–47 of the audited consolidated financial statements. Also, refer to section 2 of this report for cross-referencing information.



**11 GROSS AND NET CREDIT RISK EXPOSURE BY ASSET CLASS — STANDARDISED APPROACH**

AED'000

Asset Class	Credit risk mitigation (CRM)						
	Gross exposure		Gross exposure	Exposure pre-	Net exposure	Credit risk-weighted assets	
	On-balance-sheet	Off-balance-sheet (post-CCF)	(on- & off-balance-sheet post-CCF)	CRM (net of specific provision and IIS)	post-CCF, CRM and other adjustments		
<b>2018</b>							
Claims on sovereigns	68,061,812	531,134	68,592,946	68,592,946	3,771,132	68,567,835	8,352,501
Claims on non-commercial public sector enterprises (PSEs)	912,013	734,057	1,646,070	1,646,070	-	1,646,172	-
Claims on multilateral development banks	336,394	326	336,720	336,720	-	336,720	-
Claims on financial institutions**	44,233,301	13,544,567	57,777,868	57,283,890	12,497,126	45,245,369	27,981,194
Claims on government-related entities (GREs)	30,023,109	4,331,805	34,354,914	34,354,914	979,229	33,965,765	29,650,377
Claims on Corporate	38,992,506	25,284,627	64,277,133	64,224,861	15,300,248	49,125,718	48,664,545
Claims included in the regulatory retail portfolio	28,655,750	1,583,800	30,239,550	30,166,066	3,614,010	26,552,056	21,052,986
Claims secured by residential property	7,486,002	77,429	7,563,431	7,536,782	1,844	7,534,938	3,136,408
Claims secured by commercial real estate	45,052,849	10	45,052,859	44,921,581	1,283,865	43,671,715	43,654,715
Past due loans	5,481,628	-	5,481,628	1,674,835	-	1,674,835	1,803,595
Other assets	3,848,541	-	3,848,541	3,848,541	-	3,848,541	3,848,541
<b>Total Credit Risk</b>	<b>273,083,905</b>	<b>46,087,755</b>	<b>319,171,660</b>	<b>314,587,206</b>	<b>37,447,454</b>	<b>282,169,664</b>	<b>188,144,862</b>
<b>2017</b>							
Claims on sovereigns	64,924,498	93,799	65,018,297	65,018,296	3,075,226	64,930,193	5,020,910
Claims on non-commercial public sector enterprises (PSEs)	1,183,493	808,574	1,992,067	1,992,067	192	1,991,875	-
Claims on multilateral development banks	147,487	13,196	160,683	160,683	-	160,683	-
Claims on financial institutions**	35,056,341	15,788,431	50,844,772	50,350,794	10,961,515	40,238,138	27,936,404
Claims on government-related entities (GREs)	26,577,379	2,543,824	29,121,203	29,101,823	1,548,055	28,739,345	22,457,018
Claims on Corporate	36,450,304	22,381,891	58,832,195	58,754,451	11,970,049	48,095,712	47,655,075
Claims included in the regulatory retail portfolio	32,935,538	1,447,431	34,382,969	34,259,634	2,971,192	31,418,423	25,025,083
Claims secured by residential property	7,192,134	73,202	7,265,336	7,264,557	786	7,263,771	3,122,605
Claims secured by commercial real estate	42,805,752	-	42,805,752	42,560,016	1,612,177	41,069,008	40,933,359
Past due loans	4,515,135	-	4,515,135	1,619,488	90,748	1,528,740	1,889,376
Other assets	2,981,135	-	2,981,135	2,981,135	-	2,981,135	2,981,135
<b>Total Credit Risk</b>	<b>254,769,196</b>	<b>43,150,348</b>	<b>297,919,544</b>	<b>294,062,944</b>	<b>32,229,940</b>	<b>268,417,023</b>	<b>177,020,965</b>

\*Eligible guarantees used to substitute credit risk weights are included in CRM.

\*\*Claims on financial institutions include exposure to all credit institutions, investment firms and finance companies.

**12 GROSS AND NET CREDIT RISK EXPOSURE BY EXTERNALLY RATED/UNRATED — STANDARDISED APPROACH**

Asset Class	AED'000						
	Gross exposure		Credit risk mitigation (CRM)				Credit risk-weighted assets
	Rated	Unrated	Gross exposure (on- & off-balance-sheet post-CCF)	Exposure pre-CRM (net of specific provision and IIS)	CRM*	Net exposure post-CCF, CRM and other adjustments	
<b>2018</b>							
Claims on sovereigns **	68,592,946	-	68,592,946	68,592,945	3,771,132	68,567,835	8,352,501
Claims on non-commercial public sector enterprises (PSEs)	1,646,070	-	1,646,070	1,646,070	-	1,646,172	-
Claims on multilateral development banks	336,720	-	336,720	336,720	-	336,720	-
Claims on financial institutions***	44,351,142	13,426,726	57,777,868	57,283,890	12,497,126	45,245,369	27,981,194
Claims on government-related entities (GREs)	14,532,148	19,822,766	34,354,914	34,354,915	979,229	33,965,765	29,650,377
Claims on Corporate	9,817,049	54,460,084	64,277,133	64,224,861	15,300,248	49,125,718	48,664,545
Claims included in the regulatory retail portfolio	-	30,239,550	30,239,550	30,166,066	3,614,010	26,552,056	21,052,986
Claims secured by residential property	-	7,563,431	7,563,431	7,536,782	1,844	7,534,938	3,136,408
Claims secured by commercial real estate	-	45,052,859	45,052,859	44,921,581	1,283,865	43,671,715	43,654,715
Past due loans	-	5,481,628	5,481,628	1,674,835	-	1,674,835	1,803,595
Other assets	-	3,848,541	3,848,541	3,848,541	-	3,848,541	3,848,541
<b>Total Credit Risk</b>	<b>139,276,075</b>	<b>179,895,585</b>	<b>319,171,660</b>	<b>314,587,206</b>	<b>37,447,454</b>	<b>282,169,664</b>	<b>188,144,862</b>
<b>2017</b>							
Claims on sovereigns	65,018,297	-	65,018,297	65,018,296	3,075,226	64,930,193	5,020,910
Claims on non-commercial public sector enterprises (PSEs)	1,992,067	-	1,992,067	1,992,067	192	1,991,875	-
Claims on multilateral development banks	160,683	-	160,683	160,683	-	160,683	-
Claims on financial institutions**	32,471,551	18,373,221	50,844,772	50,350,794	10,961,515	40,238,138	27,936,404
Claims on government-related entities (GREs)	8,884,820	20,236,383	29,121,203	29,101,823	1,548,055	28,739,345	22,457,018
Claims on Corporate	6,787,659	52,044,536	58,832,195	58,754,451	11,970,049	48,095,712	47,655,075
Claims included in the regulatory retail portfolio	-	34,382,969	34,382,969	34,259,634	2,971,192	31,418,423	25,025,083
Claims secured by residential property	-	7,265,336	7,265,336	7,264,557	786	7,263,771	3,122,605
Claims secured by commercial real estate	-	42,805,752	42,805,752	42,560,016	1,612,177	41,069,008	40,933,359
Past due loans	-	4,515,135	4,515,135	1,619,488	90,748	1,528,740	1,889,376
Other assets	-	2,981,135	2,981,135	2,981,135	-	2,981,135	2,981,135
<b>Total Credit Risk</b>	<b>115,315,077</b>	<b>182,604,467</b>	<b>297,919,544</b>	<b>294,062,944</b>	<b>32,229,940</b>	<b>268,417,023</b>	<b>177,020,965</b>

\*Eligible guarantees used to substitute credit risk weights are included in CRM.

\*\*UAE sovereign bonds with internal rating that are comparable to external ratings of AA are included in claims on sovereigns

\*\*\*Claims on financial institutions include exposure to all credit institutions, investment firms and finance companies.

**13 GROSS CREDIT RISK BY CURRENCY**

AED'000

	Loans	Investment securities	Other assets	Total funded	Commitments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
<b>2018</b>									
AED	145,429,675	-	19,181,055	164,610,730	4,922,662	2,246,742	9,364,207	16,533,611	181,144,341
USD	28,513,778	44,892,995	34,825,343	108,232,116	2,054,948	7,015,732	14,782,682	23,853,362	132,085,478
EUR	244,732	5,404,145	1,430,031	7,078,908	-	445,778	645,197	1,090,975	8,169,883
CHF	-	-	22,891	22,891	-	80,204	12,724	92,928	115,819
GBP	-	-	568,011	568,011	-	37,017	91,724	128,741	696,752
MYR	-	-	-	-	-	-	-	-	-
Other	579,977	1,663,015	859,304	3,102,296	-	2,179,247	2,208,891	4,388,138	7,490,434
Less: Acceptances	-	-	(10,531,047)	(10,531,047)	-	-	-	-	(10,531,047)
<b>Total</b>	<b>174,768,162</b>	<b>51,960,155</b>	<b>46,355,588</b>	<b>273,083,905</b>	<b>6,977,610</b>	<b>12,004,720</b>	<b>27,105,425</b>	<b>46,087,755</b>	<b>319,171,660</b>
<b>2017</b>									
AED	147,012,490	-	19,792,177	166,804,667	4,437,496	2,492,295	9,719,923	16,649,714	183,454,381
USD	22,771,460	40,984,197	26,033,370	89,789,027	1,113,237	4,374,956	15,163,519	20,651,712	110,440,739
EUR	68,667	5,815,876	1,728,681	7,613,224	-	244,364	645,675	890,039	8,503,263
CHF	-	-	47,657	47,657	-	-	1,383	1,383	49,040
GBP	7	-	35,692	35,699	-	-	122,345	122,345	158,044
MYR	-	-	-	-	-	-	-	-	-
Other	726,803	1,894,614	451,202	3,072,619	5,650	3,091,303	1,738,202	4,835,155	7,907,774
Less: Acceptances	-	-	(12,593,697)	(12,593,697)	-	-	-	-	(12,593,697)
<b>Total</b>	<b>170,579,427</b>	<b>48,694,687</b>	<b>35,495,082</b>	<b>254,769,196</b>	<b>5,556,383</b>	<b>10,202,918</b>	<b>27,391,047</b>	<b>43,150,348</b>	<b>297,919,544</b>

**14 GROSS CREDIT RISK BY GEOGRAPHY**

AED'000

	Loans	Investment securities	Other assets	Total funded	Commitments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
<b>2018</b>									
Domestic (UAE)	165,138,363	23,193,284	39,119,517	227,451,164	6,447,124	4,578,640	19,189,040	30,214,803	257,665,967
Other GCC countries	3,505,739	11,047,497	2,020,565	16,573,801	527,173	206,017	640,461	1,373,651	17,947,452
Other Arab countries	1,113,391	234,475	387,204	1,735,070	-	19,933	49,931	69,864	1,804,934
Asia	2,488,948	9,023,304	5,519,484	17,031,736	1,556	113,198	3,174,760	3,289,515	20,321,251
Europe	410,908	2,963,169	5,792,661	9,166,738	-	6,889,638	1,589,547	8,479,185	17,645,923
USA	88,384	4,373,178	2,483,568	6,945,130	1,757	2,746	2,377,538	2,382,041	9,327,171
Rest of the world	2,022,429	1,125,248	1,563,636	4,711,313	-	194,548	84,148	278,696	4,990,009
Less: Acceptances	-	-	(10,531,047)	(10,531,047)	-	-	-	-	(10,531,047)
<b>Total</b>	<b>174,768,162</b>	<b>51,960,155</b>	<b>46,355,588</b>	<b>273,083,905</b>	<b>6,977,610</b>	<b>12,004,720</b>	<b>27,105,425</b>	<b>46,087,755</b>	<b>319,171,660</b>
<b>2017</b>									
Domestic (UAE)	160,696,004	25,559,492	29,415,578	215,671,074	5,052,462	4,115,627	16,830,657	25,998,746	241,669,820
Other GCC countries	4,237,042	6,323,138	1,634,097	12,194,277	501,339	138,813	946,376	1,586,528	13,780,805
Other Arab countries	883,704	322,659	216,920	1,423,283	-	1,772	37,939	39,711	1,462,994
Asia	2,753,692	8,406,907	4,817,438	15,978,037	2,582	94,437	2,714,969	2,811,988	18,790,025
Europe	291,857	3,123,326	5,663,669	9,078,852	-	5,722,449	1,920,419	7,642,868	16,721,720
USA	-	4,108,612	4,842,095	8,950,707	-	4,954	4,846,401	4,851,355	13,802,062
Rest of the world	1,717,128	850,553	1,498,982	4,066,663	-	124,866	94,286	219,152	4,285,815
Less: Acceptances	-	-	(12,593,697)	(12,593,697)	-	-	-	-	(12,593,697)
<b>Total</b>	<b>170,579,427</b>	<b>48,694,687</b>	<b>35,495,082</b>	<b>254,769,196</b>	<b>5,556,383</b>	<b>10,202,918</b>	<b>27,391,047</b>	<b>43,150,348</b>	<b>297,919,544</b>

**15 GROSS CREDIT RISK BY RESIDUAL MATURITY**

AED'000

	Loans	Investment securities	Other assets	Total funded	Commitments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
<b>2018</b>									
Less than 3 months	31,867,797	6,246,853	38,090,675	76,205,325	275,314	2,090,569	5,522,276	7,888,159	84,093,484
3 months to less than 6 months	2,576,571	1,915,841	6,060,134	10,552,546	1,478,330	776,529	1,799,621	4,054,480	14,607,026
6 months to less than 1 year	1,914,533	2,129,551	8,947,533	12,991,617	853,934	453,165	8,371,736	9,678,835	22,670,452
1 year to 3 years	28,000,210	20,644,319	2,242,159	50,886,688	3,349,099	2,953,244	10,787,171	17,089,514	67,976,202
Over 3 years	110,409,051	21,023,591	1,546,134	132,978,776	1,020,933	5,731,213	624,621	7,376,767	140,355,543
Less: Acceptances	-	-	(10,531,047)	(10,531,047)	-	-	-	-	(10,531,047)
<b>Total</b>	<b>174,768,162</b>	<b>51,960,155</b>	<b>46,355,588</b>	<b>273,083,905</b>	<b>6,977,610</b>	<b>12,004,720</b>	<b>27,105,425</b>	<b>46,087,755</b>	<b>319,171,660</b>
<b>2017</b>									
Less than 3 months	27,334,491	7,747,979	34,982,841	70,065,311	265,041	1,229,026	6,467,820	7,961,887	78,027,198
3 months to less than 6 months	4,846,870	1,563,484	5,216,111	11,626,465	652,357	221,373	3,776,942	4,650,672	16,277,137
6 months to less than 1 year	2,389,396	1,962,811	4,641,753	8,993,960	348,725	798,451	6,159,368	7,306,544	16,300,504
1 year to 3 years	25,830,435	19,584,504	2,108,270	47,523,209	2,443,479	2,939,538	10,516,467	15,899,484	63,422,693
Over 3 years	110,178,235	17,835,909	1,139,804	129,153,948	1,846,781	5,014,530	470,450	7,331,761	136,485,709
Less: Acceptances	-	-	(12,593,697)	(12,593,697)	-	-	-	-	(12,593,697)
<b>Total</b>	<b>170,579,427</b>	<b>48,694,687</b>	<b>35,495,082</b>	<b>254,769,196</b>	<b>5,556,383</b>	<b>10,202,918</b>	<b>27,391,047</b>	<b>43,150,348</b>	<b>297,919,544</b>

**16 GROSS CREDIT RISK BY ECONOMIC SECTOR**

	AED'000								
	Loans	Investment securities	Other assets	Total funded	Commitments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
<b>2018</b>									
Agriculture	206,858	-	-	206,858	-	-	29,404	29,404	236,262
Energy	1,619,507	122,932	-	1,742,439	590,400	21,992	426,953	1,039,345	2,781,784
Trading	5,908,643	181,461	-	6,090,104	576,077	105,796	9,944,641	10,626,514	16,716,618
Real estate & hospitality	67,512,674	311,358	576,671	68,400,703	2,964,867	201,484	8,501,486	11,667,837	80,068,540
Transport	2,461,154	41,440	-	2,502,594	440,921	551,752	1,020,838	2,013,511	4,516,105
Personal	36,693,859	-	-	36,693,859	747,592	538,235	342,948	1,628,775	38,322,634
Government & public sector entities	35,349,135	42,441,814	19,590,185	97,381,134	798,872	85,840	253,911	1,138,623	98,519,757
Financial institutions*	14,434,947	8,467,522	21,865,204	44,767,673	438,215	9,715,231	3,694,080	13,847,526	58,615,199
Manufacturing	4,824,914	260,977	-	5,085,891	30,706	339,062	2,132,979	2,502,747	7,588,638
Services	3,426,233	111,588	-	3,537,821	112,168	131,119	694,554	937,841	4,475,662
Others	714,710	21,063	14,854,575	15,590,348	277,792	314,209	63,631	655,632	16,245,980
Add: Interest in suspense	1,615,528	-	-	1,615,528	-	-	-	-	1,615,528
Less: Acceptances	-	-	(10,531,047)	(10,531,047)	-	-	-	-	(10,531,047)
<b>Total</b>	<b>174,768,162</b>	<b>51,960,155</b>	<b>46,355,588</b>	<b>273,083,905</b>	<b>6,977,610</b>	<b>12,004,720</b>	<b>27,105,425</b>	<b>46,087,755</b>	<b>319,171,660</b>
<b>2017</b>									
Agriculture	209,241	-	-	209,241	-	-	65,063	65,063	274,304
Energy	1,747,802	78,787	-	1,826,589	633,127	44,440	376,454	1,054,021	2,880,610
Trading	6,152,306	88,418	-	6,240,724	666,893	4,737	2,037,058	2,708,688	8,949,412
Real estate & hospitality	61,411,937	455,773	634,780	62,502,490	2,458,697	243,882	8,769,077	11,471,656	73,974,146
Transport	2,969,272	61,827	-	3,031,099	136,525	549,802	687,234	1,373,561	4,404,660
Personal	39,901,083	-	-	39,901,083	862,588	131,840	290,051	1,284,479	41,185,562
Government & public sector entities	34,618,261	38,520,262	19,997,123	93,135,646	465,140	229,574	264,993	959,707	94,095,353
Financial institutions*	14,044,154	9,305,115	11,677,780	35,027,049	263,077	8,001,621	13,008,854	21,273,552	56,300,601
Manufacturing	4,338,120	166,172	-	4,504,292	2,640	26,342	1,275,873	1,304,855	5,809,147
Services	3,074,123	18,333	-	3,092,456	18,546	538,190	566,219	1,122,955	4,215,411
Others	722,675	-	15,779,096	16,501,771	49,150	432,490	50,171	531,811	17,033,582
Add: Interest in suspense	1,390,453	-	-	1,390,453	-	-	-	-	1,390,453
Less: Acceptances	-	-	(12,593,697)	(12,593,697)	-	-	-	-	(12,593,697)
<b>Total</b>	<b>170,579,427</b>	<b>48,694,687</b>	<b>35,495,082</b>	<b>254,769,196</b>	<b>5,556,383</b>	<b>10,202,918</b>	<b>27,391,047</b>	<b>43,150,348</b>	<b>297,919,544</b>

\*During the year, loans and advances to banks have been reclassified to "Deposits and balances due from banks" (other assets) to better reflect the underlying nature of the business of the borrowers.

## 17 CREDIT RISK AND RISK MEASUREMENT AND MITIGATION POLICIES

Loans and advances and commitments to customers, investment in bonds and derivatives are the main sources of credit risk for the Bank. The Bank's risk management policies and processes are designed to identify, analyse and measure risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data review. The Bank assesses the probability of default of each counterparty using internal rating tools tailored for various categories of counterparties. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing these lending limits or taking pre-emptive action through additional collateral/margin calls, structural enhancements, etc., where appropriate.

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

### Loans and advances

(a) Real estate collateral — The Bank accepts real estate collateral (residential, commercial and mixed use) to either back corporate exposures or as income-producing real estate as the repayment source for the facility. Both of these segments are treated separately and governed by separate policies. In all cases, real estate collaterals are subject to regular re-evaluation by Bank-approved valuers and mortgage registration with the appropriate regulatory authorities. In lending new facilities, the Bank has a policy to obtain multiple valuations (based on the facility size) to ensure conservatism in determining Loan to Value (LTV) ratio. As at 31 December 2018, the Bank had total mortgage collateral of AED 115,855 mn, (includes assignment over lease-hold properties and selected secondary mortgages of AED 4,753 mn (2017: AED 114,998mn), almost all of it in the UAE and over 50% in Abu Dhabi, with the rest across other Emirates. The Bank also holds as collaterals secondary mortgages and assignment over lease-hold properties which are not included in the mortgage collateral value.

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 share and bond collaterals are pledged either at the market or at the broker level. These would also include a small amount of mutual funds. As at 31 December 2018, the Bank had total share collateral of AED 29,591mn (2017: AED 27,525mn), predominantly listed on the Abu Dhabi Stock Exchange.

c) Cash collateral — The Bank also takes cash collateral primarily from small and medium-size enterprise (SME) customers and as trade margins for trade finance transactions. As at 31 December 2018, the Bank had AED 13,373 mn in cash and near-cash collaterals (2017: AED 15,607 mn).

d) Guarantees from highly rated banks, corporates and government entities — In addition to collaterals, the Bank regularly accepts guarantees from highly rated corporates, banks and government entities and transfers the risk of the exposure to the better-rated entities. Almost all company loans have the corporate guarantee of the parent. Most of our guarantees are executed using the Bank's standard legal documentation to ensure they are unconditional guarantees to qualify as credit risk mitigants. As at 31 December 2018, the guarantee accepted by the Bank amounted to AED 5,029 mn (2017: AED 6,584 mn).

(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 14,426 mn as at 31 December 2018 (2017: AED 19,279 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 markets products through the use of Credit Support Annexes (CSAs). CSAs require the counterparty (or the Group) to post collateral when mark-to-market positions exceed threshold and minimum transfer amounts. Most 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. As at 31 December 2018, the Bank held AED 233 mn and posted AED 2,406 mn of collaterals for CSA purposes. In general, the Bank does not use credit derivatives or credit default swaps as a credit risk mitigant.

As per the 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 the 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 and RWA relief

	AED'000	
	2018	2017
<b>RWA pre-CRM</b>	<b>220,020,216</b>	206,438,605
<b>RWA relief:</b>		
On-balance-sheet netting	<b>(3,518,594)</b>	(1,513,326)
Eligible financial collateral (cash and securities)	<b>(23,994,330)</b>	(22,314,264)
Guarantees (credit substitution)	<b>(4,362,431)</b>	(5,590,050)
<b>Net exposures after credit risk mitigation</b>	<b>188,144,861</b>	177,020,965

### Eligible credit risk mitigants used in capital calculation

	AED'000	
Type of credit risk mitigants*	2018	2017
<b>Exposure reduction:</b>		
Cash	<b>11,717,258</b>	12,205,565
Other eligible financial collateral (main index shares and bonds)	<b>13,875,055</b>	10,435,587
Netting agreements	<b>6,825,229</b>	3,004,769
<b>Credit substitution:</b>	<b>32,417,542</b>	25,645,921
Guarantees	<b>5,029,912</b>	6,584,019
<b>Total eligible credit risk mitigants</b>	<b>37,447,454</b>	32,229,940

\* To the extent utilised in capital calculation

## 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 was as follows:

	AED'000	
	2018	2017
<b>Opening balance of impairment allowance</b>	<b>6,090,677</b>	6,045,744
Effect of change in accounting policy for IFRS 9	<b>1,510,228</b>	-
	<b>7,600,905</b>	6,045,744
Charge for the year	-	-
IFRS 9 charge / (release) for the year		-
Stage 1 & 2	<b>(68,974)</b>	
Stage 3	<b>1,552,850</b>	
Individual impairment	-	1,952,033
Collective impairment	-	(22,764)
Less: Write-off of impaired loans to income statement	<b>(1,538,469)</b>	(1,631,744)
Less: Recovery of loan loss provisions	<b>(218,089)</b>	(258,906)
Less: Discount unwind/currency translation	<b>(19,380)</b>	(50,373)
<b>Closing balance of impairment allowance*</b>	<b>7,308,843</b>	6,033,990

Note: Refer to audited financial statements 2018 for full disclosures on impairment provisions (IFRS 9)



**Portfolio monitoring and identifying credit risk and impairment**

**Impaired loans by geography**

	AED'000				
	Overdue (gross of interest in suspense & individual impairment)	Impairment allowance as at 31 December		Interest in suspense	Total impaired assets (net of interest in suspense & individual impairment)
	90 days and above	Individual	Collective*		
<b>2018*</b>					
Domestic (UAE)	6,518,705	2,826,400	-	1,469,127	2,223,178
Other GCC countries	301,576	96,332	-	146,306	58,938
Other Arab countries	1	-	-	1	-
Asia	21,034	13,237	-	77	7,720
Europe	9	-	-	9	-
Rest of the world	9	1	-	8	-
<b>Total</b>	<b>6,841,334</b>	<b>2,935,970</b>	<b>4,372,873</b>	<b>1,615,528</b>	<b>2,289,836</b>
<b>2017</b>					
Domestic (UAE)	4,676,422	2,791,429	-	1,247,522	637,471
Other GCC countries	385,450	58,002	-	136,071	191,377
Other Arab countries	4	-	-	1	3
Asia	20,187	12,516	-	6,844	827
Europe	118	-	-	8	110
Rest of the world	96	-	-	7	89
<b>Total</b>	<b>5,082,277</b>	<b>2,861,947</b>	<b>3,172,042</b>	<b>1,390,453</b>	<b>829,877</b>

\* Includes impairment allowance for banks, central bank balances, investments, other assets, letter of credit, guarantees and other commitments

**Impaired loans by economic sector**

	AED'000				
	Overdue (gross of interest in suspense & individual impairment)	Impairment allowance as at 31 December		Interest in suspense	Total impaired assets (net of interest in suspense & individual impairment)
	90 days and above	Individual	Collective*		
<b>2018*</b>					
Agriculture	316,429	106,126	-	116,951	93,352
Energy	22,381	22,341	-	14	26
Trading	304,728	209,993	-	72,865	21,870
Real estate & hospitality	3,026,293	1,156,497	-	628,246	1,241,550
Transport	311,558	171,212	-	76,814	63,532
Personal	1,837,708	818,015	-	500,173	519,520
Government & public sector entities	-	-	-	-	-
Financial institutions	533,024	171,455	-	169,127	192,443
Manufacturing	439,076	247,856	-	42,160	149,060
Services	46,139	29,862	-	8,186	8,090
Others	3,998	2,611	-	991	395
<b>Total</b>	<b>6,841,334</b>	<b>2,935,970</b>	<b>4,372,873</b>	<b>1,615,528</b>	<b>2,289,836</b>
<b>2017</b>					
Agriculture	292,094	98,975	-	94,139	98,980
Energy	22,366	11,305	-	4	11,057
Trading	537,593	346,352	-	63,117	128,124
Real estate & hospitality	1,144,511	406,110	-	291,934	446,467
Transport	385,001	177,944	-	113,334	93,723
Personal	1,762,113	1,126,802	-	619,279	16,032
Government & public sector entities	-	19,380	-	-	(19,380)
Financial institutions	576,630	562,453	-	187,192	(173,015)
Manufacturing	325,290	112,626	-	16,103	196,561
Services	33,831	-	-	4,660	29,171
Others	2,848	-	-	691	2,157
<b>Total</b>	<b>5,082,277</b>	<b>2,861,947</b>	<b>3,172,042</b>	<b>1,390,453</b>	<b>829,877</b>

\* Includes impairment allowance for banks, central bank balances, investments, other assets, letter of credit, guarantees and other commitments

**19 MARKET RISK**

**Capital requirement for market risk under standardised approach**

**Capital calculation**

Capital is allocated in respect of market risk under the general guide- lines 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.

	AED'000	
	2018	2017
Interest rate risk	743,350	887,224
Equity position risk	-	-
Foreign exchange risk	32,376	55,066
Commodity risk	78,387	79,452
Options risk	216,426	264,530
<b>Total Capital Requirement</b>	<b>1,070,539</b>	<b>1,286,273</b>

	2018		2017	
	Risk- weighted	Capital requirements	Risk- weighted	Capital requiremen
<b>Interest rate risk — trading book</b>				
Specific risk	7,517	958	216,237	25,948
General risk — maturity-based	5,822,680	742,392	7,177,297	861,276
General risk — duration-based	-	-	-	-
<b>Foreign exchange risk</b>	<b>253,931</b>	<b>32,376</b>	458,887	55,066
<b>Equity exposure risk- trading book</b>	-	-	-	-
General risk	-	-	-	-
Specific risk	-	-	-	-
<b>Commodity risk- trading book</b>	<b>614,799</b>	<b>78,387</b>	662,099	79,452
<b>Options risk</b>	-	-	-	-
Simplified approach	-	-	-	-
Intermediate approach	1,697,462	216,426	2,204,418	264,530
<b>Total market risk capital charge</b>	<b>8,396,389</b>	<b>1,070,539</b>	10,718,938	1,286,273

Note : Capital requirements calculated based on minimum CAR ratio for 2018 (including buffers)

## 20 EQUITY POSITION IN BANKING BOOK

	AED'000			
	2018		2017	
	Publicly traded/quoted	Privately held/unquoted	Publicly traded/quoted	Privately held/unquoted
Equities	150,236	251,843	163,833	333,137
Collective investment schemes	-	-	-	-
Any other investments	-	-	-	-
<b>Total equity position</b>	<b>150,236</b>	<b>251,843</b>	<b>163,833</b>	<b>333,137</b>

	AED'000	
	2018	2017
<b>Realised, unrealised and latent revaluation gains (losses) during the year</b>		
Realised gains (losses) from sales and liquidations	1,588	3,827
Unrealised gains (losses) recognised in the balance sheet but not through profit and loss account	(107,938)	41,442
Latent revaluation gains (losses) for investment recorded at cost but not recognised in balance sheet or profit or loss account	-	-
<b>Total</b>	<b>(106,350)</b>	<b>45,269</b>

	AED'000	
	2018	2017
<b>Items in table above included in Tier 1/Tier 2 capital</b>		
Amount included in Tier 1 capital	(106,350)	3,827
Amount included in Tier 2 capital	-	18,649
<b>Total</b>	<b>(106,350)</b>	<b>22,476</b>
<b>Capital requirements by Equity Groupings</b>		
Strategic investments	-	-
Fair value through other comprehensive income (FVOCI)	67,320	79,625
Held-for-trading	-	-
<b>Total Capital Requirement</b>	<b>67,320</b>	<b>79,625</b>

Note : Capital requirements calculated based on minimum CAR ratio for 2018 (including buffers)

## 21 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It excludes strategic and reputation risk aspects. Operational Risk could have many possible repercussions, including damage to the Bank's reputation, legal or regulatory implications, and financial losses.

The ultimate responsibility for Bank-wide operational risk profile, as well as compliance with laws and regulations, rests with the Board of Directors, 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 MRCC and Management Executive Committee (MEC) as applicable for policy purposes.

The Operational Risk Governance Framework 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 under Basel II. The capital charge including buffer requirements for the year ended 31 December 2018 was AED 1,945,999 thousand (2017: AED 1,743,508 thousand).

Operational risk management 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, Compliance, Fraud Management, Information Security) — 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 and material process changes, which may include new initiatives, new products and system 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 risks. The reports are submitted to the Board (as part of CRO update) 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 by centralizing its fraud management capabilities, increased fraud awareness to the employees and customers, as well as initiating various projects to drive fraud prevention through use of technology and systems. 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 a primary site to a recovery site and enabling them to carry out critical activities.