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Abu Dhabi Commercial Bank PJSC

BASEL III – PILLAR III

2017

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 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 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
Basis of requirements	The Bank's annual report is prepared in accordance with the requirements of IFRS and UAE Federal Law No. 2 of 2015.	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. 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.
Basis of preparation	The quantitative credit risk disclosures in the risk review section 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 IN THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Topic	Risk review in the audited consolidated financial statements	Pillar III disclosures
Credit risk management and 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 43, 45 and 47 to the audited financial statements, respectively.	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.
	Maximum exposure to credit risk net of impairment and interest in suspense and credit risk concentration are provided in Notes 43.1 and 43.2 to the audited consolidated financial statements.	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.
	Internal credit risk grading analysis provided by business for loans neither past due nor impaired and available-for-sale investments is provided in Note 43.5 to the audited consolidated financial statements.	Section 12 of this report provides an indicative mapping of the Bank's rated and unrated exposure.
	Note 52 to the audited consolidated financial statements provides the overall capital adequacy of the Bank split into Tier 1 and Tier 2 ratios.	Minimum regulatory capital requirements for credit, market and operational risk are set out in section 6 of this report.
Credit risk mitigation	An overview of CRM is provided in Note 43.4 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 and by economic and industry sector are provided in Note 43.2 to the audited consolidated financial statements.	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.
Credit risk management and impairment allowance	Provisioning approach and definition of impaired loans along with disclosures of impaired loans, past due but not impaired loans, past due and impaired loans, individual impairment charge and collective impairment charge are set out in Notes 43.5 and 43.6 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 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 43 to the audited consolidated financial statements.
Market risk	A description of market risk management and measurement, along with quantitative disclosures on VaR and sensitivity analysis, is set out in Note 47 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	Description of operational risk management is set out in Note 48 to the audited consolidated financial statements.	A detailed description of operational risk, including information system and regulatory risk faced by the Bank, is set out in section 21.
Key management compensation	Disclosures on remuneration to senior management/key management personnel are set out in our annual report corporate governance section and Note 37 to the audited consolidated financial statements.	

3 COMPARISON BETWEEN THE AUDITED CONSOLIDATED BALANCE SHEET AND CREDIT RISK EXPOSURE AT DEFAULT AS AT 31 DECEMBER 2017

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
2017										
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**	-	**10,202,918**
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**	**(25,645,921)**	**174,024,336**
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.

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
2016										
Cash and balances with central banks	19,261,902	-	-	-	19,261,902	-	19,261,902	-	-	19,261,902
Deposits and balances due from banks	24,663,615	103,369	-	-	24,766,984	-	24,766,984	-	-	24,766,984
Reverse-repo placements	1,524,806	-	-	-	1,524,806	-	1,524,806	-	-	1,524,806
Trading securities	418,758	-	(418,758)	-	-	-	-	-	-	-
Derivative financial instruments	3,971,789	-	(3,971,789)	-	-	-	-	8,793,125	-	8,793,125
Investment securities	33,059,466	-	-	(495,860)	32,563,606	-	32,563,606	-	-	32,563,606
Loans and advances, net	158,457,695	7,224,162	-	-	165,681,857	(4,052,305)	161,629,552	37,846,396	(33,022,999)	166,452,950
Investment in associate	204,977	(204,977)	-	-	-	-	-	-	-	-
Investment properties	659,776	-	-	-	659,776	-	659,776	-	-	659,776
Other assets	15,120,988	(12,942,908)	-	-	2,178,080	-	2,178,080	-	-	2,178,080
Property and equipment, net	926,685	-	-	-	926,685	-	926,685	-	-	926,685
Intangible assets	18,800	(18,800)	-	-	-	-	-	-	-	-
	258,289,257	(5,839,154)	(4,390,547)	(495,860)	247,563,696	(4,052,305)	243,511,391	46,639,521	(33,022,999)	257,127,914

*Effect of regulatory adjustments include adjustments for impairment, acceptances (treated off-balance-sheet), investment in associates and intangible assets.
**Guarantees amounting to AED 5,781,259 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

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 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 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 2017 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 systematically 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
CET 1			
- 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%
CET1 including buffer and surcharge	**8.50%**	**9.25%**	**10.00%**
Tier 1 (CET1+Additional Tier 1)	**10.00%**	**10.75%**	**11.50%**
Minimum capital requirement (CAR)	**12.00%**	**12.75%**	**13.50%**

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 2017, ADCB’s liquidity coverage ratio (LCR) was 135% 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% and Tier 1 ratio of 10% (including CCB and D-SIB buffers) for the year 2017. At the end of 2017, ADCB met the minimum requirements with a total capital ratio of 19.09% and Tier 1 ratio of 15.92%. 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 2017. 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 2017 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 2017, 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.

	Basel III	Basel III	Basel II
	2017	2017	2016
	Capital charge (AED'000)	Capital charge (post dividend) (AED'000)	Capital charge (AED'000)
Capital requirements			
1 Credit risk Standardised approach	**21,242,516**	**21,242,516**	20,310,292
2 Market risk Standardised approach	**1,286,273**	**1,286,273**	1,001,230
3 Operational risk Standardised approach	**1,743,508**	**1,743,508**	1,648,976
Total capital requirement	**24,272,297**	**24,272,297**	22,960,498
Capital ratios:			
Total for the Bank (Capital Adequacy Ratio)	**19.09%**	**18.02%**	18.92%
Common Equity Tier 1 (CET 1)	**13.96%**	**12.88%**	-
Tier I	**15.92%**	**14.84%**	15.66%
Tier II	**3.17%**	**3.17%**	3.26%

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 52 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 2017 Annual Report and Notes 42–48 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		Credit risk mitigation (CRM)				
	On-balance-sheet	Off-balance-sheet (post-CCF)	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	Credit risk–weighted assets
2017							
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**
Total Credit Risk	**254,769,196**	**43,150,348**	**297,919,544**	**294,062,944**	**32,229,940**	**268,417,023**	**177,020,965**
2016							
Claims on sovereigns	55,710,864	816,547	56,527,411	56,527,410	4,185,961	56,499,791	6,366,545
Claims on non-commercial public sector enterprises (PSEs)	1,919,905	435,598	2,355,503	2,355,503	90	2,355,413	-
Claims on multilateral development banks	86,179	24,243	110,422	110,422	-	110,422	-
Claims on financial institutions**	46,181,164	21,591,795	67,772,959	67,303,783	18,344,298	49,682,503	26,084,673
Claims on government-related entities (GREs)	20,193,271	3,151,718	23,344,989	23,274,094	58,991	23,223,005	21,509,642
Claims on Corporate	33,737,173	17,693,667	51,430,840	51,401,708	8,151,512	43,339,286	42,895,386
Claims included in the regulatory retail portfolio	32,312,703	2,835,619	35,148,322	34,954,777	6,138,145	29,585,538	22,780,358
Claims secured by residential property	6,523,628	90,334	6,613,962	6,613,962	1,693	6,612,270	3,479,776
Claims secured by commercial real estate	42,774,943	-	42,774,943	42,529,163	1,355,395	41,207,767	41,207,767
Past due loans	5,496,897	-	5,496,897	2,453,122	568,172	1,884,950	2,301,321
Other assets	2,626,968	-	2,626,968	2,626,968	-	2,626,968	2,626,968
Total Credit Risk	247,563,696	46,639,521	294,203,217	290,150,912	38,804,257	257,127,914	169,252,435

*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 CREDIT RISK EXPOSURE BY EXTERNALLY RATED/UNRATED — STANDARDISED APPROACH

Asset Class	Gross exposure		Credit risk mitigation (CRM)				
	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	Credit risk–weighted assets
2017							
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**
Total Credit Risk	**115,315,077**	**182,604,467**	**297,919,544**	**294,062,944**	**32,229,940**	**268,417,023**	**177,020,965**
2016							
Claims on sovereigns	56,527,411	-	56,527,411	56,527,410	4,185,961	56,499,791	6,366,545
Claims on non–commercial public sector enterprises (PSEs)	2,355,503	-	2,355,503	2,355,503	90	2,355,413	-
Claims on multilateral development banks	110,422	-	110,422	110,422	-	110,422	-
Claims on financial institutions**	43,794,008	24,371,942	67,772,959	67,303,783	18,344,298	49,682,503	26,084,673
Claims on government–related entities (GREs)	9,314,841	13,791,656	23,344,989	23,274,094	58,991	23,223,005	21,509,642
Claims on Corporate	5,701,524	45,574,817	51,430,840	51,401,708	8,151,512	43,339,286	42,895,386
Claims included in the regulatory retail portfolio	-	35,148,322	35,148,322	34,954,777	6,138,145	29,585,538	22,780,358
Claims secured by residential property	-	6,613,962	6,613,962	6,613,962	1,693	6,612,270	3,479,776
Claims secured by commercial real estate	-	42,774,943	42,774,943	42,529,163	1,355,395	41,207,767	41,207,767
Past due loans	-	5,496,897	5,496,897	2,453,122	568,172	1,884,950	2,301,321
Other assets	-	2,626,968	2,626,968	2,626,968	-	2,626,968	2,626,968
Total Credit Risk	117,803,709	176,399,508	294,203,217	290,150,912	38,804,257	257,127,914	169,252,435

*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	Commit-ments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
2017									
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)**
Total	**170,579,427**	**48,694,687**	**35,495,082**	**254,769,196**	**5,556,383**	**10,202,918**	**27,391,047**	**43,150,348**	**297,919,544**
2016									
AED	144,866,558	-	17,551,839	162,418,397	4,693,049	5,820,065	6,995,517	17,508,631	179,927,028
USD	19,814,901	28,556,897	41,200,905	89,572,703	1,428,241	1,745,335	21,730,084	24,903,660	114,476,363
EUR	43,023	3,082,873	586,978	3,712,874	-	643,800	746,725	1,390,525	5,103,399
CHF	-	99,359	18,926	118,286	-	314,615	2,312	316,927	435,212
GBP	7	-	551,537	551,544	-	49,286	73,055	122,341	673,885
MYR	-	-	3,709	3,709	-	45,173	-	45,173	48,882
Other	957,367	824,477	2,667,281	4,449,125	-	174,850	2,177,415	2,352,265	6,801,390
Less: Acceptances	-	-	(13,262,942)	(13,262,942)	-	-	-	-	(13,262,942)
Total	165,681,857	32,563,606	49,318,233	247,563,696	6,121,290	8,793,125	31,725,106	46,639,521	294,203,217

14 GROSS CREDIT RISK BY GEOGRAPHY

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
2017									
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)**
Total	**170,579,427**	**48,694,687**	**35,495,082**	**254,769,196**	**5,556,383**	**10,202,918**	**27,391,047**	**43,150,348**	**297,919,544**
2016									
Domestic (UAE)	156,573,278	20,873,426	40,950,081	218,396,785	5,648,167	3,696,179	24,052,407	33,396,753	251,793,537
Other GCC countries	3,694,226	3,789,096	10,870,922	18,354,244	458,605	92,967	675,761	1,227,334	19,581,578
Other Arab countries	94,017	527,924	196,685	818,626	-	13,024	45,555	58,580	877,206
Asia	3,396,063	4,679,056	3,046,050	11,121,169	-	142,638	2,896,812	3,039,450	14,160,619
Europe	477,951	1,603,317	2,660,707	4,741,975	41	4,725,103	739,514	5,464,657	10,206,632
USA	801	474,907	3,234,157	3,709,865	-	5,312	3,192,916	3,198,228	6,908,093
Rest of the world	1,445,521	615,880	1,622,573	3,683,974	14,478	117,902	122,141	254,520	3,938,494
Less: Acceptances	-	-	(13,262,942)	(13,262,942)	-	-	-	-	(13,262,942)
Total	165,681,857	32,563,606	49,318,233	247,563,696	6,121,290	8,793,125	31,725,106	46,639,521	294,203,217

15 GROSS CREDIT RISK BY RESIDUAL MATURITY

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
2017									
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)**
Total	**170,579,427**	**48,694,687**	**35,495,082**	**254,769,196**	**5,556,383**	**10,202,918**	**27,391,047**	**43,150,348**	**297,919,544**
2016									
Less than 3 months	24,925,700	2,559,515	51,490,336	78,975,551	459,412	1,326,931	10,241,576	12,027,919	91,003,470
3 months to less than 6 months	2,519,066	1,115,803	6,714,777	10,349,646	799,798	357,392	7,555,641	8,712,831	19,062,477
6 months to less than 1 year	2,810,152	1,919,397	1,380,578	6,110,127	568,986	396,262	4,741,259	5,706,507	11,816,634
1 year to 3 years	21,344,744	8,594,384	1,890,302	31,829,430	3,479,234	2,073,154	8,641,597	14,193,985	46,023,415
Over 3 years	114,082,195	18,374,507	1,105,182	133,561,884	813,860	4,639,385	545,033	5,998,279	139,560,163
Less: Acceptances	-	-	(13,262,942)	(13,262,942)	-	-	-	-	(13,262,942)
Total	165,681,857	32,563,606	49,318,233	247,563,696	6,121,290	8,793,125	31,725,106	46,639,521	294,203,217

16 GROSS CREDIT RISK BY ECONOMIC SECTOR

AED'000

	Loans	Investment securities	Other assets	Total funded	Commit-ments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
2017									
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)**
Total	**170,579,427**	**48,694,687**	**35,495,082**	**254,769,196**	**5,556,383**	**10,202,918**	**27,391,047**	**43,150,348**	**297,919,544**
2016									
Agriculture	207,906	-	-	207,906	-	-	42,334	42,334	250,240
Energy	508,375	1,004,986	-	1,513,361	399,425	27,651	23,112	450,188	1,963,549
Trading	5,419,939	148,707	-	5,568,646	887,480	143,469	3,326,573	4,357,521	9,926,167
Real estate & hospitality	58,069,975	416,991	659,776	59,146,742	2,453,766	97,451	8,152,006	10,703,223	69,849,964
Transport	3,603,851	455,682	-	4,059,533	41	489,513	324,775	814,328	4,873,862
Personal	40,665,429	-	-	40,665,429	927,478	38,337	1,979,904	2,945,719	43,611,148
Government & public sector entities	36,129,103	22,667,416	19,261,902	78,058,421	1,000,326	1,204,514	2,219,420	4,424,260	82,482,681
Financial institutions*	12,845,685	7,183,227	26,291,790	46,320,702	336,872	6,765,456	14,517,810	21,620,137	67,940,839
Manufacturing	3,884,811	240,159	-	4,124,970	59,593	4,867	580,640	645,100	4,770,069
Services	2,314,907	63,099	-	2,378,006	41,833	21,587	519,396	582,815	2,960,821
Others	750,089	383,339	16,367,707	17,501,136	14,478	281	39,137	53,896	17,555,032
Add: Interest in suspense	1,281,787	-	-	1,281,787	-	-	-	-	1,281,787
Less: Acceptances	-	-	(13,262,942)	(13,262,942)	-	-	-	-	(13,262,942)
Total	165,681,857	32,563,606	49,318,233	247,563,696	6,121,290	8,793,125	31,725,106	46,639,521	294,203,217

*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 securities held in the available-for-sale (AFS) portfolio 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 2017, the Bank had total mortgage collateral of AED 114,998 mn (2016: AED 95,986 mn), 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 2017, the Bank had total share collateral of AED 27,525 mn (2016: AED 25,384 mn), 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 2017, the Bank had AED 15,607 mn in cash and near-cash collaterals (2016: AED 20,454 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 2017, the guarantee accepted by the Bank amounted to AED 6,584 mn (2016: AED 5,781 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 19,279 mn as at 31 December 2017 (2016: AED 17,251 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 2017, the Bank held AED 381 mn and posted AED 1,733 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

	2017	2016
RWA pre-CRM	**206,438,605**	204,324,734
RWA relief:		–
On-balance-sheet netting	**(1,513,326)**	(1,242,461)
Eligible financial collateral (cash and securities)	**(22,314,264)**	(29,154,709)
Guarantees (credit substitution)	**(5,590,050)**	(4,675,129)
Net exposures after credit risk mitigation	**177,020,965**	169,252,435

Eligible credit risk mitigants used in capital calculation

AED'000

Type of credit risk mitigants*	2017	2016
Exposure reduction:		
Cash	**12,205,565**	15,620,064
Other eligible financial collateral (main index shares and bonds)	**10,435,587**	14,890,848
Netting agreements	**3,004,769**	2,512,086
Credit substitution:	**25,645,921**	33,022,998
Guarantees	**6,584,019**	5,781,259
Total eligible credit risk mitigants	**32,229,940**	38,804,257

* 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

	2017	2016
Opening balance of impairment allowance	**6,045,744**	6,344,887
Charge for the year		
a. Individual impairment	**1,952,033**	1,464,214
b. Collective impairment	**(22,764)**	225,699
Less: Write-off of impaired loans to income statement	**(1,631,744)**	(1,786,884)
Less: Recovery of loan loss provisions	**(258,906)**	(137,597)
Less: Discount unwind/currency translation	**(50,373)**	(64,575)
Closing balance of impairment allowance*	**6,033,990**	6,045,744

* Includes collective impairment allowance of AED 127,246 thousand (2016: AED 103,369 thousand) on due from banks

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*		
2017					
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**
Total	**5,082,277**	**2,861,947**	**3,172,042**	**1,390,453**	**829,877**
2016					
Domestic (UAE)	5,567,511	2,779,670	-	1,155,582	1,632,259
Other GCC countries	239,045	6,973	-	117,446	114,626
Other Arab countries	-	-	-	-	-
Asia	18,520	11,759	-	5,236	1,525
Europe	56,668	52,921	-	3,519	228
Rest of the world	5	-	-	4	1
Total	5,881,749	2,851,323	3,194,421	1,281,787	1,748,639

* Includes collective impairment allowance of AED 127,246 thousand (2016: AED 103,369 thousand) on due from banks

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*		
2017					
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**
Total	**5,082,277**	**2,861,947**	**3,172,042**	**1,390,453**	**829,877**
2016					
Agriculture	271,133	99,227	-	73,080	98,825
Energy	62	44	-	13	5
Trading	379,750	275,807	-	40,174	63,770
Real estate & hospitality	1,178,757	330,563	-	397,733	450,461
Transport	388,696	174,165	-	93,990	120,542
Personal	2,896,518	1,299,564	-	511,009	1,085,945
Government & public sector entities	-	70,895	-	-	(70,895)
Financial institutions	611,586	524,012	-	148,597	(61,024)
Manufacturing	101,989	39,407	-	6,288	56,294
Services	36,289	23,103	-	8,079	5,107
Others	16,969	14,536	-	2,825	(391)
Total	5,881,749	2,851,323	3,194,421	1,281,787	1,748,639

* Includes collective impairment allowance of AED 127,246 thousand (2016: AED 103,369 thousand) on due from banks

19 MARKET RISK

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.

Capital requirement for market risk under standardised approach

AED'000

	2017	2016
Interest rate risk	**887,224**	820,883
Equity position risk	**-**	-
Foreign exchange risk	**55,066**	31,169
Commodity risk	**79,452**	61,571
Options risk	**264,530**	87,607
Total Capital Requirement	**1,286,273**	1,001,230

20 EQUITY POSITION IN BANKING BOOKS

AED'000

	2017		2016	
	Publicly traded/quoted	**Privately held/unquoted**	Publicly traded/quoted	Privately held/unquoted
Equities	**163,833**	**333,137**	158,606	337,254
Collective investment schemes	**-**	**-**	-	-
Any other investments	**-**	**-**	-	-
Total equity position	**163,833**	**333,137**	158,606	337,254

AED'000

	2017	2016
Realised, unrealised and latent revaluation gains (losses) during the year		
Realised gains (losses) from sales and liquidations	**3,827**	11,315
Unrealised gains (losses) recognised in the balance sheet but not through profit and loss account	**41,442**	37,698
Latent revaluation gains (losses) for investment recorded at cost but not recognised in balance sheet or profit or loss account	**-**	-
Total	**45,269**	49,013

AED'000

	2017	2016
Items in table above included in Tier 1/Tier 2 capital		
Amount included in Tier 1 capital	**3,827**	11,315
Amount included in Tier 2 capital	**18,649**	16,964
Total	**22,476**	28,279
Capital requirements by Equity Groupings		
Strategic investments	**-**	-
Available-for-sale	**79,625**	79,776
Held-for-trading	**-**	-
Total Capital Requirement	**79,625**	79,776

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 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 under Basel II. The capital charge for the year ended 31 December 2017 was AED 1,743,508 thousand (2016: AED 1,648,976 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 the BAC, the 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 anti-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 a primary site to a recovery site and enabling them to carry out critical activities.