

Abu Dhabi Commercial Bank PJSC

Pillar 3 Report



31 December 2021

Contents

1. Introduction and basis of preparation	3
1.1 Scope of Basel 3 Pillar 3 disclosures	3
1.2 Significant capital adequacy, liquidity and funding related disclosure requirements	3
1.3 COVID-19 temporary regulatory measures	3
2. Overview of Basel 3 requirements	5
2.1 ADCB's approach to Pillar 1	5
2.2 Minimum capital requirement	6
2.3 Leverage and liquidity ratios	6
2.4 Standards for Standalone Capital Adequacy Ratio	6
2.5 Revised Standards for Pillar 3 disclosures.....	6
2.6 Impact on ADCB.....	7
2.7 Basis of consolidation.....	7
2.8 Internal controls and verification	7
2.9 Ownership	7
3. Summary of differences between Pillar 3 disclosures and risk review in the audited consolidated financial statements.....	8
4. Summary of cross-references between Pillar 3 disclosures and risk review in the audited consolidated financial statements	9
5. Comparison of accounting balance sheet and exposure at default	11
6. Key Prudential Regulatory Metrics (at consolidated group level).....	14
6.1 Capital management	15
6.2 Capital resources (CC1).....	16
6.3 Reconciliation of regulatory capital to balance sheet (CC2)	17
6.4 Main features of regulatory capital instruments (CCA)	18
6.5 Countercyclical capital buffer (CCyB).....	18
7. Risk Weighted Assets.....	19
7.1 Our approach to measuring risk exposure and risk-weighted assets.....	19
7.2 RWA development in 2021.....	19
7.3 Overview of risk weighted assets (OV1)	20
8. Leverage Ratio.....	21
8.1 Summary comparison of accounting assets versus leverage ratio exposure measure (LR1)	21
8.2 Leverage ratio common disclosure (LR2).....	22
9. Funding and liquidity risk.....	23
9.1 High-quality liquid assets.....	23
9.2 Liquidity Coverage Ratio (LIQ1)	23
9.3 Net Stable Funding Ratio (NSFR) (LIQ2)	24
10. Credit Risk Management	25
10.1 Credit quality of assets (CR1).....	25
10.2 Changes in stock of defaulted loans and debt securities (CR2)	25
10.3 Credit risk mitigation techniques – overview (CR3)	25
10.4 Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)	26
10.5 Standardised approach - exposures by asset classes and risk weights (CR5).....	27
10.6 Gross and net credit risk exposure by asset class — Standardised Approach	28
10.7 Gross and net credit risk exposure by externally rated/unrated — Standardised Approach.....	29
10.8 Gross credit risk by currency	30
10.9 Gross credit risk by geography	32
10.10 Gross credit risk by residual maturity	33
10.11 Gross credit risk by economic sector	34
10.12 Credit risk measurement and mitigation policies	35
10.13 Impairment analysis	36
11. Market Risk.....	38
11.1 Market risk capital requirement	38
12. Counterparty credit risk	39
12.1 Composition of collateral for CCR exposure (CCR5).....	39
12.2 Analysis of CCR exposure by approach (CCR1)	39
12.3 Exposures to central counterparties (CCR8).....	40
12.4 Credit derivatives exposures (CCR6).....	40
12.5 Standardised approach - CCR exposures by regulatory portfolio and risk weights (CCR3)	41
13. Interest rate risk in the banking book (IRRBB).....	42
13.1 Repricing maturity assigned to non-maturity deposits (NMDs) (IRRBBA1).....	44
13.2 Quantitative information on IRRBB (IRRBB1)	44
14. Prudential valuation adjustments (PVAs)	44
15. Operational risk	45
16. Remuneration.....	47

1. Introduction and basis of preparation

1.1 Scope of Basel 3 Pillar 3 disclosures

The Basel Committee on Banking Supervision (BCBS) Basel 3 capital adequacy framework consists of three pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market and operational risks faced by banks. Pillar 2 allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risk types and/or to cover other risks. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.

This report provides Pillar 3 disclosures for Abu Dhabi Commercial Bank PJSC and its subsidiaries together referred to as “ADCB” or the “Bank” or the “Group”).

ADCB is considered a Domestic Systemically Important Bank (D-SIB) under Central Bank laws/regulations and is required to comply with the Standards and Guidance re Capital Adequacy in the UAE (Notice CBUAE/BSN/2020/4980 dated 12 November 2020) as applicable to UAE D-SIBs on a consolidated basis. Capital and other regulatory information of the Bank as at December 2021 are provided in our annual financial statements - <https://www.adcb.com/en/about-us/investor-relations/financial-reports/#financial-report-2021>.

1.2 Significant capital adequacy, liquidity and funding related disclosure requirements

Capital adequacy, liquidity, funding and remuneration related disclosures in Pillar 3 report has been prepared in accordance with Central Bank of UAE Pillar 3 disclosure requirements as stipulated in Standards and Guidance re Capital Adequacy in the UAE (Notice CBUAE/BSN/2020/4980 dated 12 November 2020) and Explanatory Notes on Pillar 3 Disclosure requirements, the underlying BCBS guidance “Revised Pillar 3 disclosure requirements” issued in January 2015, the “Frequently asked questions on the revised Pillar 3 disclosure requirements” issued in August 2016, the “Pillar 3 disclosure requirements – consolidated and enhanced framework” issued in March 2017 and the subsequent “Technical Amendment – Pillar 3 disclosure requirements – regulatory treatment of accounting provisions” issued in August 2018.

1.3 COVID-19 temporary regulatory measures

The Covid-19 pandemic has caused an unprecedented human health crisis and economic impact. While the initial acute phase of the financial crisis has eased, firms and policy-makers remain concerned about a range of risks that could present a threat to financial stability and, ultimately, the economic recovery.

In response to this crisis, the Central Bank of UAE (CBUAE) has instituted measures in the UAE to support businesses and households. Some of the measures announced by the CBUAE under Targeted Economic Support Scheme (TESS), which would mitigate the impact of Covid-19, are discussed below.

A. Temporary relief to customers

Under the TESS deferral program, temporary relief from payments of principal and/or interest/profit on outstanding loans was granted to all Covid-19 affected private sector corporates, small and medium enterprises, and individuals domiciled in UAE. To incentivize UAE banks to participate in the TESS deferral programme and to improve their lending capacity, CBUAE has granted AED 50 billion zero cost funding (ZCF) facility (capital buffer) for the entire banking industry till December 31, 2021.

In addition to TESS deferral program, CBUAE also provided TESS recovery program zero cost funding facility until June 30, 2022 for the entire banking industry. Under the TESS recovery program, Banks can offer working capital facilities and/or any other new financing to customers negatively impacted by Covid-19 repercussions.

B. Liquidity and capital stimulus package

The pandemic had a significant negative impact on the liquidity/funding and capital risks and profile of the banking system. Governments around the world had to intervene to provide various stimulus packages to mitigate the adverse effects of the crisis. CBUAE has also introduced the following stimulus package relating to liquidity and capital requirements, to support the banking industry in the UAE through this disruption, for banks that entirely pass on the TESS related benefits to end customers:

- ▶ CBUAE has a reduced requirement of maintaining a minimum liquidity coverage ratio (LCR) of 70% (from 100%), minimum net stable funding ratio (NSFR) of 90% (from 100%), and minimum eligible liquid assets ratio (ELAR) of 7% (from 10%). This liquidity can be used to compensate for the effect of posting collateral required by the TESS programme.
- ▶ To improve liquidity within UAE banking system, the CBUAE halved the reserve requirement for demand deposit of all banks from 14% to 7%.
- ▶ To counter volatility in financial markets and its impact on regulatory capital, CBUAE has issued a new requirement for all banks to apply a prudential filter to IFRS 9 expected credit loss (ECL) provisions. Any increase in the provisioning compared to December 31, 2019, will be partially added back to regulatory capital, while IFRS 9 provisions will be gradually phased-in during a five-year period, ending December 31, 2024.
- ▶ The CBUAE has allowed banks to tap into capital conservation buffer and domestic systemically important banks (D-SIB) buffer to the extent of 60% and 100%, respectively till June 30, 2022.
- ▶ Planned implementation of credit value adjustment (CVA) related regulations is postponed till June 30, 2022.

In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements through its Liquidity Contingency Plan and stress tests reflecting the current economic scenarios. As at the reporting date, the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

2. Overview of Basel 3 requirements

The Bank complies with the Basel 3 standards and guidance notes which have been implemented in the UAE through notice reference CBUAE/BSN/2020/4980 dated 12 November, 2020.

Basel requirements are structured around three 'pillars' which are outlined below:

Pillar 1 - 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 2 - allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risk types or to cover other risks. A bank's own internal models and assessments support this process. The second pillar deals with the regulatory response to the first pillar giving regulators much-improved tools over those available to them under Pillar1. 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 3 - covers external communication of risk and capital information by banks as specified in the Basel rules. The aim of Pillar 3 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, capital adequacy, liquidity and funding position and leverage 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 audited consolidated financial statements.

Basel 3 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.

2.1 ADCB's approach to Pillar 1

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

Market risk: the Bank uses the standardised approach for calculating regulatory market risk capital requirements.

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

2.2 Minimum capital requirement

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 are required to maintain the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCB requirement is set to 2.5% of risk weighted assets. Banks will also be subject to a countercyclical buffer that varies between zero and 2.5% of total risk weighted assets. The buffer that will apply to each bank will reflect the geographic composition of its portfolio of credit exposures.

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%

2.3 Leverage and liquidity ratios

Basel 3 introduced a 3% minimum leverage ratio and two liquidity ratios viz; Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR requires a bank to hold sufficient high quality liquid assets to cover its total net cash outflows over 30 days and NSFR 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” circular number 33/2015 which is in effect till date. The regulations require banks to maintain LCR of 100% at minimum and NSFR of 100% at minimum. For the year 2021, CBUAE has a reduced requirement of maintaining a minimum LCR of 70% (from 100%) and minimum NSFR of 90% (from 100%) under TESS programme. Further, CBUAE standards issued in November 2020 requires D-SIB banks to maintain a leverage ratio of 3.5%.

The methodology for estimating the liquidity coverage ratio (LCR) and Net Stable Funding Ratio (NSFR) is based on an interpretation of the Basel standards and includes a number of assumptions.

As at 31 December 2021, ADCB’s LCR was 124.07% and NSFR 110.03% which are well above the minimum requirement of 70% and 90% under TESS programme.

ADCB monitors its position against LCR and NSFR requirements to ensure the Bank’s ability to comply with the standards.

2.4 Standards for Standalone Capital Adequacy Ratio

In November 2019, the Central Bank of UAE had issued consultative draft standards on standalone capital adequacy ratio. Currently in the UAE banks are required to meet prudential capital requirements on a consolidated basis. In December 2020, following industry consultation Central Bank of UAE issued a draft version of standalone capital adequacy framework for UAE banks. Prior to its implementation, the Central Bank requires all local banks to file standalone capital return on a bi-annual basis, commencing from December 2020.

A preliminary assessment of standalone capital adequacy has been conducted and the Bank meets the minimum capital requirements.

2.5 Revised Standards for Pillar 3 disclosures

Basel 3 standards and guidance notes which have been implemented in the UAE through notice reference CBUAE/BSN/2020/4980 dated 12 November, 2020 laid out the revised disclosure requirements. These standards and guidance notes supersede the existing Pillar 3 disclosure requirements issued in 2009. These revised requirements are an integral part of the Basel framework and they complement other disclosure requirements issued separately by Central Bank. Pillar 3 Disclosure requirements apply to all banks in the UAE at consolidated level for local banks and all branches of foreign banks.

2.6 Impact on ADCB

The UAE Central Bank has set a total capital adequacy ratio (CAR) of 13.50% and CET 1 ratio of 10% (including CCB and D-SIB buffers). For the year 2021, capital adequacy requirements under TESS relief programme are CAR of 11.50% and CET 1 ratio of 8%. At the end of 2021, ADCB met the minimum requirements with a CAR of 15.97% and CET1 ratio of 12.94% (without adjusting for proposed dividend CAR is 16.75% and CET 1 ratio is 13.72%). ADCB's capital ratios are above the minimum capital requirement without any buffer relief under TESS. Additionally, the composition of the Bank's capital is of high-quality equity base 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.

2.7 Basis of consolidation

The Bank's Pillar 3 disclosures are presented on a consolidated basis incorporating all its subsidiaries and excluding commercial entities for the year ended 31 December 2021.

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.

2.8 Internal controls and verification

The key features of internal controls around Pillar 3 reporting are as follows:

- ▶ Segregation of duties – maker-checker process is strictly followed in compiling Pillar 3 report;
- ▶ Data-sourcing and reconciliation – data is sourced from multiple systems which are reconciled with the general ledger, sub-ledgers and audited financial statements;
- ▶ Reviews – Pillar 3 report undergoes several rounds of reviews by Finance and Risk functions;
- ▶ Internal audit – Internal audit provides independent and objective assurance of disclosures in Pillar 3 report and
- ▶ Attestation – Attestation is obtained from a Board member that Pillar 3 report has been prepared in accordance with the board-agreed internal control processes.

Pillar 3 disclosures for the year ended 31 December 2021 have been appropriately reviewed by the management and internal audit.

2.9 Ownership

The Government of Abu Dhabi indirectly owns 60.20% of the Bank's issued share capital via One Hundred and Fourteenth Investment Company – Sole Proprietorship LLC, a fully owned subsidiary of Mubadala Investment Company. ADCB enjoys strong government support as evidenced by historical capital, liquidity and strategic support by Government of Abu Dhabi.

3. Summary of differences between Pillar 3 disclosures and risk review in the audited consolidated financial statements

The details included in this report on certain aspects of credit, market and operational risk are from a regulatory perspective. The quantitative disclosures will not be directly comparable with the audited consolidated financial statements, as the former are largely based on the Basel 3 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 exposure at default the Bank has estimated under specified Basel 3 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 annual consolidated financial statements	Pillar 3 disclosures
Basis of requirements	The Bank's audited annual consolidated financial statements is prepared in accordance with the requirements of IFRS and UAE Federal Law No. 2 of 2015.	<p>The Bank's Pillar 3 disclosures provide detail on risk from a regulatory perspective as required by the Basel 3 standardised approach requirements, which have been implemented in the UAE through the Central Bank of the UAE standards/guidelines issued in November 2020.</p> <p>The capital supply is determined based on Basel 3 requirements, which have been implemented in the UAE through the Central Bank of the UAE guidelines issued in February 2017 and standards/guidance issued in November 2020.</p>
Basis of preparation	<p>The quantitative credit risk disclosures in the credit risk management section are set out based on IFRS.</p> <p>Loans and advances are analysed net of impairment, 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 the UAE.</p> <p>Loans and advances are analysed at gross levels 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>

4. Summary of cross-references between Pillar 3 disclosures and risk review in the audited consolidated financial statements

Topic	Risk review in the audited annual consolidated financial statements	Pillar 3 disclosures
Credit risk management and measurement and risk-grading	<p>An overview of credit, liquidity and market risk management and measurement along with the quantitative disclosures are set out in Notes 43, 45 and 46 to the audited annual consolidated financial statements respectively.</p> <p>Maximum exposure to credit risk and credit risk concentration are provided in Notes 43.1 and 43.4 to the audited annual 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 43.3 to the audited annual consolidated financial statements.</p> <p>Note 50 to the audited annual 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 7 and 10 of this report. Liquidity ratios and market risk capital requirements are disclosed in section 9 and 11 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 10.6 of this report.</p> <p>Section 10.7 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 sections 7,11 and 15 of this report.</p>
Credit risk mitigation	<p>An overview of CRM is provided in Note 43.5 to the audited annual consolidated financial statements.</p>	<p>Sections 10.3, 10.4 and 10.12 provide the impact and description of total CRM held by the Bank. This report also provides total exposure post and pre-CRM adjustment in section 10.6 of this report.</p>
Concentration of credit risk	<p>Disclosures on concentration of credit risk by geography, economic and industry sector are provided in Note 43.4 to the audited annual consolidated financial statements.</p>	<p>Disclosures on concentration of credit risk by currency, geography, residual maturity and economic sector calculated based on the Basel rules are provided in section 10 of this report.</p>

Topic	Risk review in the audited annual consolidated financial statements	Pillar 3 disclosures
Credit risk management and impairment allowance	Provisioning approach and financial assets by stages with expected credit loss are set out in Note 43.3 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 10.13 of this report. Qualitative and quantitative disclosures are disclosed in Note 43 to the audited consolidated financial statements which are in line with Pillar 3 quantitative guidelines.
Market risk	A description of market risk management and measurement, along with quantitative disclosures on VaR and interest rate sensitivity analysis, is set out in Note 46 to the audited consolidated financial statements.	Section 11 of this report provide quantitative disclosures of capital requirements for market risk.
Liquidity risk	A description on liquidity risk framework, measurement and monitoring is set out in Note 45 to the audited consolidated financial statements.	Quantitative disclosure in the format required by Pillar 3 guidelines is set out in section 9 of this report.
Operational risk	Description of operational risk management is set out in Note 47 to the audited consolidated financial statements.	A description of operational risk faced by the Bank is set out in section 15 of this report.
Key management compensation	Disclosures on remuneration to senior management/key management personnel are set out in 2020 annual report corporate governance section and Note 37 to the audited consolidated financial statements.	Quantitative disclosure in the format required by Pillar 3 guidelines is set out in section 16 of this report.
List of subsidiaries	List of subsidiaries included in accounting consolidation is listed in note number 49 of audited annual financial statements.	List of subsidiaries included in regulatory consolidation are listed in note number 49 of audited annual financial statements except Abu Dhabi Commercial Properties LLC, Abu Dhabi Commercial Property Development LLC, Abu Dhabi Commercial Engineering Services LLC, Al Hilal Auto LLC and Alexandria New Medical Centre SAE as these are commercial entities.

5. Comparison of accounting balance sheet and exposure at default

The differences between the financial and regulatory consolidated balance sheets arise primarily from differences in the basis of consolidation and the requirement to not consolidate for regulatory purposes commercial entities which are subject to full consolidation for financial purposes. Further, acceptances included in other assets are treated as off-balance sheet exposure for regulatory purpose and have been excluded. The regulatory risk category drives the approach applied in the calculation of regulatory exposures and RWA. Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories is disclosed in the following page.

5.1 Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (LI1):

31 December 2021	Carrying values of items							AED '000
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework/ Equity risk	Not subject to capital requirements or subject to deduction from capital	
Assets								
Cash and balances with central banks, net	33,746,202	33,746,130	33,746,130	-	-	-	-	
Deposits and balances due from banks, net	26,670,143	26,670,143	26,670,143	-	-	-	-	
Financial assets at fair value through profit or loss	1,706,767	1,706,767	-	-	-	1,317,935	388,832	
Derivative financial instruments	6,488,021	6,488,021	-	6,488,021	-	5,111,394	-	
Investment securities	96,513,292	96,513,292	95,697,255	-	-	816,037	-	
Loans and advances to customers, net	244,282,293	244,282,293	244,282,293	-	-	-	-	
Investment in associates	262,609	262,609	262,609	-	-	-	-	
Investment properties	1,674,954	1,674,954	1,674,954	-	-	-	-	
Other assets, net	19,354,460	3,098,932	3,098,932	-	-	-	-	
Property and equipment, net	2,064,270	2,052,165	2,052,165	-	-	-	-	
Intangible assets, net	7,294,685	7,294,685	-	-	-	-	7,294,685	
Assets held for sale	220,673	156,487	156,487	-	-	-	-	
Total Assets	440,278,369	423,946,479	407,640,969	6,488,021	-	7,245,366	7,683,517	
Liabilities								
Due to banks	7,205,333	7,205,333	-	-	-	-	7,205,333	
Derivative financial instruments	6,563,379	6,563,379	-	6,563,379	-	4,522,633	-	
Deposits from customers	265,052,325	265,052,325	-	-	-	-	265,052,325	
Euro commercial paper	6,199,157	6,199,157	-	-	-	-	6,199,157	
Borrowings	72,499,337	72,499,337	-	-	-	-	72,499,337	
Other liabilities	23,384,164	7,229,079	-	-	-	-	23,384,164	
Liabilities related to assets held for sale	4,648	4,648	-	-	-	-	4,648	
Total Liabilities	380,908,343	364,753,258	-	6,563,379	-	4,522,633	374,344,964	
Shareholders' equity								
Share capital	6,957,379	6,957,379	-	-	-	-	-	
Share premium	17,878,882	17,878,882	-	-	-	-	-	
Other reserves	9,283,381	9,283,381	-	-	-	-	-	
Retained earnings	19,240,158	19,063,353	-	-	-	-	-	
Capital notes (Basel III-compliant capital instrument)**	6,000,000	6,000,000	-	-	-	-	-	
Non-controlling interests	10,226	10,226	-	-	-	-	-	
Total shareholders' equity	59,370,026	59,193,221	-	-	-	-	-	
Total shareholders' equity and liabilities	440,278,369	423,946,479	-	6,563,379	-	4,522,633	374,344,964	

5.2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

The below table shows the effect of regulatory adjustments required to derive the Banks's exposure at default (EAD) for the purposes of calculating its capital requirements. The differences between the carrying values under regulatory scope of consolidation and amounts considered for regulatory purposes shown in section 5.1 are mainly provisions, collateral, off-balance sheet exposures and netting benefits on derivatives as detailed below:

31 December 2021	AED '000				
	Total	Items subject to			Subject to market risk framework/ Equity risk
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	
Total assets amount under regulatory scope of consolidation (as per LI1)	421,374,356	407,640,969	6,488,021	-	7,245,366
Off-balance sheet amounts recognised in regulatory exposure (post-ccf) including acceptances	55,574,134	55,574,134	-	-	-
Differences due to consideration of provisions and IIS	14,175,660	14,175,660	-	-	-
Add-ons on derivatives net of collateral mitigation and netting agreement	5,323,784	-	5,323,784	-	-
Others	(137,985)	(137,985)	-	-	-
Gross exposures before credit risk mitigation	496,309,949	477,252,778	11,811,805	-	7,245,366
Credit risk mitigation excluding guarantees	(37,376,453)	(37,376,453)	-	-	-
Gross regulatory exposures at default	458,933,496	439,876,325	11,811,805	-	7,245,366

6. Key Prudential Regulatory Metrics (at consolidated group level)

6.1 Key metrics for the Group (KM1)

	31-Dec-21*	30-Sep-21	30-Jun-21	30-Mar-21	AED '000 31-Dec-20
Available capital (amounts)					
Common Equity Tier 1 (CET1)	43,108,862	44,323,785	43,135,187	41,801,998	40,739,785
Tier 1	49,108,862	50,323,785	49,135,187	47,801,998	46,739,785
Total capital	53,196,672	54,451,593	53,332,790	51,923,229	50,889,187
Risk-weighted assets					
Total risk-weighted assets (RWA)	333,025,573	335,019,323	326,764,397	312,099,054	306,424,076
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	12.94%	13.23%	13.20%	13.39%	13.30%
Tier 1 ratio (%)	14.75%	15.02%	15.04%	15.32%	15.25%
Total capital ratio (%)	15.97%	16.25%	16.32%	16.64%	16.61%
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Bank D-SIB additional requirements (%)	0.50%	0.50%	0.50%	0.50%	0.50%
Total bank CET1 specific buffer requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
CET1 available for the buffer requirement (%)	5.47%	5.75%	5.82%	6.14%	6.11%
Basel III Leverage Ratio					
Total Basel III leverage ratio measure	482,767,838	-	-	-	-
Basel III leverage ratio (%)	10.17%	-	-	-	-
Liquidity Coverage Ratio**					
Total HQLA	86,613,117	75,180,351	74,459,907	72,336,709	87,643,426
Total net cash outflow	69,807,216	57,091,235	58,342,647	51,931,151	55,794,134
LCR ratio (%)	124.07%	131.68%	127.63%	139.29%	157.08%
Net Stable Funding Ratio					
Total available stable funding	281,908,042	275,851,007	268,718,084	263,592,986	267,811,214
Total required stable funding	256,200,492	257,829,997	249,850,363	243,500,198	242,609,347
NSFR ratio (%)	110.03%	106.99%	107.55%	108.25%	110.39%

* Capital ratios stated here are after adjusting proposed dividend. Without adjusting for proposed dividend the ratios are - CAR (16.75%), Tier 1 ratio (15.52%) and CET 1 ratio (13.72%)

** LCR is calculated as at the end of each period rather than using average values. For average LCR, refer to table LIQ1.

6.1 Capital management

The Bank's capital management aims to guarantee solvency and maximise profitability, while complying with regulatory requirements and internal objectives. It is a key strategic tool for decision making, enabling us to set a common framework of actions, criteria, policies, functions, metrics and processes. Our active capital management applies strategies on efficient capital allocation to business lines. Our capital allocation model aims to ensure our capital allocation is right for the risks inherent in our operations and risk appetite to optimise value creation for our group and business units.

The ratios of this report are calculated by applying the Central Bank of UAE capital standards and guidelines as mentioned in section 2 of this report.

- ▶ At year-end, the CET1 ratio was 12.94% (post proposed dividend) which is 294bps above the regulatory minimum and CAR was 15.97% which is 247 bps above the regulatory minimum.
- ▶ The leverage ratio stood at 10.17% against a regulatory minimum of 3.5%.

6.2 Capital resources (CC1)

All capital instruments included in the capital base meet the requirements set out in the Central Bank of UAE capital standards and guidelines, except for those that are subject to a grandfathering period. Grandfathered capital instruments (T2 Note) will be fully phased out by February 2023.

	AED '000	
	31-Dec-21	31-Dec-20
Common Equity Tier 1 (CET 1) capital: instruments and reserves		
Share capital and share premium	24,836,261	24,836,261
Retained earnings	16,498,274	13,905,369
Accumulated other comprehensive income (and other reserves)	9,213,890	9,448,779
Common Equity Tier 1 capital before regulatory deductions	50,548,425	48,190,409
Common Equity Tier 1 capital regulatory adjustments		
Goodwill and other intangible assets	(7,294,685)	(7,390,291)
Deferred tax assets	(255)	-
Cash flow hedge reserve	(67,912)	(33,464)
Defined benefit pension fund net assets	(76,712)	(26,869)
Total regulatory adjustments to Common Equity Tier 1	(7,439,564)	(7,450,624)
Common Equity Tier 1 capital (CET1)	43,108,861	40,739,785
Additional Tier 1 capital: instruments (AT1)		
Eligible Additional Tier I capital	6,000,000	6,000,000
Tier 1 capital (T1= CET1 + AT1)	49,108,861	46,739,785
Tier 2 capital: instruments and provisions		
Tier 2 capital (T2)	4,087,810	4,149,402
Total regulatory capital (TC = T1 + T2)	53,196,671	50,889,187
Total risk-weighted assets	333,025,573	306,424,076
Capital ratios		
Capital Adequacy ratio including buffers	15.97%	16.61%
CET 1 ratio	12.94%	13.30%
Tier 1 ratio	14.75%	15.25%
Institution specific buffer requirement	3.00%	3.00%
Of which: capital conservation buffer requirement	2.50%	2.50%
Of which: bank-specific countercyclical buffer requirement	0.00%	0.00%
Of which: D-SIB	0.50%	0.50%
CET1 available for the buffer requirement	5.47%	6.11%
National minima (if different from Basel III)		
National Common Equity Tier 1 minimum ratio	7.00%	7.00%
National Tier 1 minimum ratio	8.50%	8.50%
National total capital minimum	10.50%	10.50%
Amounts below the thresholds for deduction (before risk weighting)		
Significant investments in common stock of financial entities	-	-
Mortgage servicing rights	-	-
Deferred tax assets arising from temporary differences	-	-
Applicable caps on the inclusion of provisions in Tier 2 (under standardised approach)		
Provisions eligible for inclusion in Tier 2	4,560,205	4,709,721
Cap on inclusion of provisions in Tier 2	3,763,456	3,429,788
Capital instruments subject to phase-out arrangements		
Current cap on T2 instruments subject to phase-out arrangements	324,354	719,614
Amount excluded from T2 due to cap (excess after redemptions and maturities)	-	-

6.3 Reconciliation of regulatory capital to balance sheet (CC2)

The following table shows the reconciliation between balance sheet prepared for published financial statements with that prepared for regulatory reporting. The amount shown under the regulatory scope of consolidation is not a RWA measure; it is based on an accounting measure and cannot be directly reconciled to other disclosures in this report which are prepared applying Basel 3 rules.

31 December 2021	Balance sheet as in published financial statements	AED '000 Under regulatory scope of consolidation
Assets		
Cash and balances with central banks, net	33,746,202	33,746,130
Deposits and balances due from banks, net	26,670,143	26,670,143
Financial assets at fair value through profit or loss	1,706,767	1,706,767
Derivative financial instruments	6,488,021	6,488,021
Investment securities	96,513,292	96,513,292
Loans and advances to customers, net	244,282,293	244,282,293
Investment in associates	262,609	262,609
Investment properties	1,674,954	1,674,954
Other assets, net	19,354,460	3,098,932
<i>Of which: acceptances treated as off-balance sheet exposure</i>	16,238,756	-
<i>Of which: other assets</i>	3,115,704	3,098,932
Property and equipment, net	2,064,270	2,052,165
Intangible assets, net	7,294,685	7,294,685
<i>Of which: goodwill</i>	6,753,517	6,753,517
<i>Of which: other intangibles</i>	541,168	541,168
Assets held for sale	220,673	156,487
Total assets	440,278,369	423,946,479
Liabilities		
Due to banks	7,205,333	7,205,333
Derivative financial instruments	6,563,379	6,563,379
Deposits from customers	265,052,325	265,052,325
Euro commercial paper	6,199,157	6,199,157
Borrowings	72,499,337	72,499,337
<i>Of which: subordinated liability considered in Tier 2 capital (before grandfathering and amortisation)*</i>	2,802,267	2,802,267
<i>Of which: other borrowed funds</i>	69,697,070	69,697,070
Other liabilities	23,384,164	7,229,079
Liabilities related to assets held for sale	4,648	4,648
Total liabilities	380,908,343	364,753,258
Shareholders' equity		
Share capital	6,957,379	6,957,379
Share premium	17,878,882	17,878,882
Other reserves	9,283,381	9,283,381
Retained earnings	19,240,158	19,063,353
Capital notes (Basel III-compliant capital instrument)**	6,000,000	6,000,000
<i>Of which: included in AT1</i>	6,000,000	6,000,000
Non-controlling interests	10,226	10,226
Total shareholders' equity	59,370,026	59,193,221
Total shareholders' equity and liabilities	440,278,369	423,946,479

* Eligible amount included in Tier 2 capital post grandfathering and amortisation is AED 324,354 thousand

** Details of material features of regulatory capital instruments are published in note 26 of annual financial statement

6.4 Main features of regulatory capital instruments (CCA)

31 December 2021	Share capital and share premium	Additional Tier-1 Notes	Additional Tier-1 Notes	Subordinated Notes
Issuer	Abu Dhabi Commercial Bank PJSC	ADCB Capital Securities	Ex-UNB Capital Securities	ADCB Finance (Cayman) LTD
Unique identifier (eg CUSIP, ISIN,etc)	AEA000201011	-	-	XS0897453493
Governing law (s) of the instrument	Law s of Emirates of Abu Dhabi	Law s of Emirates of Abu Dhabi	Law s of Emirates of Abu Dhabi	English law
Transitional Basel III rules	CET1	AT-1	AT-1	Tier-2
Post-transitional Basel III rules	CET1	AT-1	AT-1	Tier-2
Eligible at solo/group/group and solo	Group	Group	Group	Group
Instrument type (types to be specified by each jurisdiction)	Ordinary Share	Equity	Equity	Borrow ings
Amount recognised in regulatory capital (AED mn)	24,836	4,000	2,000	324
Par value of instrument (AED mn)	6,957	4,000	2,000	2,755
Accounting classification	Equity	Equity	Equity	Borrow ings
Original date of issuance	29-Apr-85	23-Feb-09	24-Feb-09	6-Mar-13
Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated
Original maturity date	-	N.A	N.A	6-Mar-23
Issuer call subject to prior supervisory approval	-	Yes	Yes	No
Optional call date, contingent call dates and redemption amount	-	23-Feb-27	24-Feb-27	-
Subsequent call dates, if applicable	-	Any coupon payment date on or after 23 February 2027	Any coupon payment date on or after 24 February 2027	-
Coupons / dividends	Dividends	Coupon	Coupon	Coupon
Fixed or floating dividend/coupon	Floating	Floating	Floating	Fixed
Coupon rate and any related index	-	6M EIBOR +2.3%	6M EIBOR +2.3%	4.5%
Existence of a dividend stopper	-	Yes	Yes	No
Existence of step-up or other incentive to redeem	-	No	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
If w ritedow n, w ritedow n trigger(s)	-	Non-Viability Event	Non-Viability Event	-
If w ritedow n, full or partial	-	Determined by Financial Regulator	Determined by Financial Regulator	-
If w ritedow n, permanent or temporary	-	Permanent	Permanent	-

6.5 Countercyclical capital buffer (CCyB)

The Bank’s countercyclical capital buffer (CCyB) requirement is determined by applying various country-specific CCyB rates to the Bank’s qualifying credit exposures in the relevant country (based on the jurisdiction of the obligor) on a weighted average basis. The Group’s current CCyB requirement is 0 bps:

31 December 2021					AED '000
Geographical breakdown n	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
Luxembourg	0.25%	2,868,558	2,864,810	0.00%	7,162
HongKong	1.00%	1,324,724	662,703	0.00%	6,627
Norw ay	1.00%	19,027	9,514	0.00%	95
Total		4,212,309	3,537,027	0.00%	13,884

7. Risk Weighted Assets

7.1 Our approach to measuring risk exposure and risk-weighted assets

Depending on the intended purpose, the reporting of risk exposure may differ under International Financial Reporting Standards (IFRS) when compared to reporting for regulatory capital purposes. Our Pillar 3 disclosures are generally based on risk exposure used to derive the regulatory capital required under Pillar 1. Our risk-weighted assets (RWA) are calculated according to the BCBS Basel 3 framework, as implemented by the Central Bank of the UAE.

7.2 RWA development in 2021

The OV1 table on the next page provides an overview of our RWA and the related minimum capital requirements by risk type. During the year 2021, RWA increased by AED 27 bn to AED 333 bn, mainly reflecting increases in CRWA due to introduction of new regulations in year 2021 and balance sheet growth. MRWA increased primarily due to change in regulations on foreign exchange exposure to GCC pegged currencies.

7.3 Overview of risk weighted assets (OV1)

	AED '000					
	RWA*			Minimum capital requirements**		
	31-Dec-21	30-Sep-21	31-Dec-20	31-Dec-21	30-Sep-21	31-Dec-20
Credit risk (excluding counterparty credit risk)	292,771,179	291,763,888	268,050,711	39,524,109	39,388,125	36,186,846
Of which: standardised approach (SA)	292,771,179	291,763,888	268,050,711	39,524,109	39,388,125	36,186,846
Of which: foundation internal ratings-based (F-IRB) approach	-	-	-	-	-	-
Of which: supervisory slotting approach	-	-	-	-	-	-
Of which: advanced internal ratings-based (A-IRB) approach	-	-	-	-	-	-
Counterparty credit risk (CCR)	8,163,671	5,244,025	6,197,583	1,102,096	707,943	836,674
Of which: standardised approach for counterparty credit risk	7,756,336	5,244,025	6,197,583	1,047,105	707,943	836,674
Of which: Internal Model Method (IMM)	-	-	-	-	-	-
Of which: other CCR	-	-	-	-	-	-
Credit valuation adjustment (CVA)	-	-	-	-	-	-
Equity positions under the simple risk weight approach	-	-	-	-	-	-
Equity investments in funds - look-through approach	407,335	-	-	54,990	-	-
Equity investments in funds - mandate-based approach	-	-	-	-	-	-
Equity investments in funds - fall-back approach	-	-	-	-	-	-
Settlement risk	-	-	-	-	-	-
Securitisation exposures in the banking book	-	-	-	-	-	-
Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-	-	-	-
Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-	-	-	-
Of which: securitisation standardised approach (SEC-SA)	-	-	-	-	-	-
Market risk	9,406,226	15,326,956	8,822,001	1,269,840	2,069,139	1,190,970
Of which: standardised approach (SA)	9,406,226	15,326,956	8,822,001	1,269,840	2,069,139	1,190,970
Of which: internal model approaches (IMA)	-	-	-	-	-	-
Capital charge for switch between trading book and banking book	-	-	-	-	-	-
Operational risk	22,542,856	22,542,856	23,219,072	3,043,286	3,043,286	3,134,575
Amounts below thresholds for deduction (subject to 250% risk weight)	141,641	141,598	134,710	19,122	19,116	18,186
Floor adjustment	-	-	-	-	-	-
Total	333,025,573	335,019,323	306,424,076	44,958,452	45,227,609	41,367,250

* Includes RWA of equity investments

** Minimum capital requirement is arrived at by applying 13.5% on RWA

8. Leverage Ratio

The Basel 3 leverage ratio is calculated by dividing the period-end tier 1 capital by the period-end leverage ratio denominator (LRD), as summarized in the table below.

8.1 Summary comparison of accounting assets versus leverage ratio exposure measure (LR1)

31 December 2021	AED '000
Summary comparison of accounting assets vs leverage ratio exposure measure	
Total consolidated assets as per published financial statements	440,278,369
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
Adjustments for derivative financial instruments	6,440,097
Adjustment for securities financing transactions (ie repos and similar secured lending)	-
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	55,381,076
Other adjustments*	(19,331,704)
Leverage ratio exposure measure	482,767,838

*Includes acceptances, intangible assets, etc. Acceptances are treated as off-balance sheet exposure.

The LRD consists of IFRS on-balance sheet assets and off-balance sheet items. Derivative exposures are adjusted for a number of items, including replacement value and eligible cash variation margin netting, the current exposure method add-on and net notional amounts for written credit derivatives.

The table on the next page shows the difference between total IFRS assets per IFRS consolidation scope and the BCBS total on-balance sheet exposures. Those exposures are the starting point for calculating the BCBS LRD, as shown in the LR2 table in this section. The difference is due to the application of the regulatory scope of consolidation for the purpose of the BCBS calculation. In addition, carrying amounts for derivative financial instruments and securities financing transactions (SFTs) are deducted from IFRS total assets. They are measured differently under BCBS leverage ratio rules and are therefore added back in separate exposure line items in the LR2 table.

8.2 Leverage ratio common disclosure (LR2)

31 December 2021	AED '000
On-balance sheet	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	421,753,329
Asset amounts deducted in determining Basel III Tier 1 capital	(7,294,685)
Total on-balance sheet exposures, excluding derivatives and SFTs	414,458,644
Derivative exposures	
Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	3,085,193
Add-on amounts for PFE associated with all derivatives transactions	5,499,184
CCR exposure for derivatives transactions	12,018,127
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
Adjusted effective notional amount of written credit derivatives	909,992
Deductions of receivables assets for cash variation margin provided in derivatives transactions	-
Exempted CCP leg of client-cleared trade exposures	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-
Securities financing transaction exposures	-
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
CCR exposure for SFT assets	-
Agent transaction exposures	-
Netted amounts of cash payables and cash receivables of gross SFT assets	-
Other off-balance sheet exposures	55,381,075
Other off-balance sheet exposure at gross notional amount	113,342,467
Reduction in exposure due to conversion to credit equivalent amounts	(57,961,392)
Capital and total exposures	
Tier 1 capital	49,108,862
Total exposures	482,767,838
Leverage ratio	10.17%

9. Funding and liquidity risk

We monitor the liquidity coverage ratio (LCR) in all significant currencies in order to manage any currency mismatch between high quality liquid assets (HQLA) and the net expected cash outflows in times of stress.

9.1 High-quality liquid assets

HQLA must be easily and immediately convertible into cash at little or no loss of value, especially during a period of stress. HQLA are assets that are of low risk and are unencumbered. Other characteristics of HQLA are ease and certainty of valuation, low correlation with risky assets, listing of the assets on a developed and recognized exchange, existence of an active and sizeable market for the assets and low volatility. Our HQLA predominantly consist of assets that qualify as Level 1 in the liquidity coverage ratio (LCR) framework, including cash, central bank reserves and government bonds.

9.2 Liquidity Coverage Ratio (LIQ1)

The LCR is designed to promote short-term resilience of the 30 calendar day liquidity profile, by ensuring that banks have sufficient HQLA to meet potential outflows in a stressed environment.

31 December 2021	AED '000	
	Total unweighted value (90 days- average)	Total weighted value (90 days- average)
High-quality liquid assets		
Total HQLA	85,676,886	77,873,284
Cash outflows		
Retail deposits and deposits from small business customers, of which:		
Stable deposits	55,199,179	2,759,959
Less stable deposits	28,574,318	2,018,869
Unsecured wholesale funding, of which:		
Operational deposits (all counterparties) and deposits in networks of cooperative banks	18,197,922	4,549,481
Non-operational deposits (all counterparties)	86,220,120	38,307,225
Unsecured debt	-	-
Secured wholesale funding	2,448,947	1,714,775
Additional requirements, of which:		
Outflows related to derivative exposures and other collateral requirements	5,443,493	4,167,407
Outflows related to loss of funding of debt products	39,732	39,732
Credit and liquidity facilities	94,068,479	15,489,608
Other contractual funding obligations	-	-
Other contingent funding obligations	-	-
Total cash outflows	290,192,190	69,047,054
Cash inflows		
Secured lending (eg reverse repo)	181,984	97,067
Inflows from fully performing exposures	11,391,577	8,857,629
Other cash inflows	3,077,590	3,077,590
Total cash inflows	14,651,151	12,032,286
		Total adjusted value
Total HQLA		77,873,284
Total net cash outflows		57,014,768
Liquidity coverage ratio (%)		136.96%

9.3 Net Stable Funding Ratio (NSFR) (LIQ2)

31 December 2021	Unweighted value by residual maturity (90 days-average)			AED '000
	<6 months	6 months to <1 year	≥1 year	Weighted value (90 days- average)
	Available stable funding (ASF) item			
Capital:				
Regulatory capital before deduction	-	-	61,742,917	61,742,917
Other capital instruments	-	-	2,323,758	2,323,758
Retail deposits and deposits from small business customers:				
Stable deposits	55,122,533	124,571	52,185	52,536,934
Less stable deposits	23,631,966	3,399,979	1,663,440	25,992,191
Wholesale funding:				
Operational deposits	18,196,523	-	-	9,098,262
Other w holesale funding	158,336,207	34,061,618	43,431,290	124,315,474
Liabilities with matching interdependent assets				
Other liabilities:				
NSFR derivative liabilities	-	-	707,779	-
All other liabilities and equity not included in the above categories	15,868,243	-	7,549	7,549
Total ASF	271,155,472	37,586,168	109,928,918	276,017,085
Total NSFR high-quality liquid assets (HQLA)	32,319,068	6,178,330	59,476,410	17,476,308
Deposits held at other financial institutions for operational purposes	102,595	-	-	51,297
Performing loans and securities:				
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	22,985,346	9,057,441	2,750,578	10,727,100
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:				
44,685,111	13,998,182	138,425,686	147,020,896	
With a risk weight of less than or equal to 35% under the standardised approach for credit risk	-	-	10,407,427	6,773,536
Performing residential mortgages, of which:				
With a risk weight of less than or equal to 35% under the standardised approach for credit risk	760	1,108	8,449,454	5,508,885
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	12,382,680	44,422	6,079,769	13,531,985
Assets with matching interdependent liabilities	-	-	-	-
Other assets:				
Physical traded commodities, including gold	-	-	2,803,913	2,803,913
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	2,968,967	-	2,792,182	2,084,402
NSFR derivative assets	2,586,578	-	-	-
NSFR derivative liabilities before deduction of variation margin posted	7,346,527	-	29,852,818	37,199,345
All other assets not included in the above categories	93,964,067	-	-	11,837,901
Off-balance sheet items	93,964,067	-	-	11,837,901
Total RSF	219,341,699	29,279,483	261,038,237	255,015,568
Net Stable Funding Ratio (%)				108.24%

10. Credit Risk Management

10.1 Credit quality of assets (CR1)

31 December 2021	Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		AED '000 Net values
	Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific*	Allocated in regulatory category of General	
Loans**	18,973,668	236,139,009	10,830,384	6,841,979	3,988,405	244,282,293
Debt securities***	50,985	95,665,979	127,040	22,038	105,002	95,697,255
Off-balance sheet exposures****	424,885	66,961,053	503,225	89,335	413,890	67,385,939
Total	19,449,538	398,766,041	11,460,649	6,953,352	4,507,297	407,365,487

* The utilisation of specific provisions may be less due to collateral adjustments and other factors considered in capital calculator

** The exposures stated here are net of interest in suspense (IIS)

*** Bond securities are carried at fair value (FVOCI) as such the net value is not derived by deducting impairment from exposure. Amortised cost bonds net value is arrived by deducting impairment.

**** Post-cf value includes acceptances and CCR related off-balance sheet exposures. ECL on off-balance sheet is shown under other liabilities as such the net values are not arrived by deducting the impairment amount.

10.2 Changes in stock of defaulted loans and debt securities (CR2)

31 December 2021	AED '000
Defaulted loans and debt securities at the end of the previous reporting period	20,234,378
Loans and debt securities that have defaulted since the last reporting period	4,265,073
Returned to non-default status	(783,928)
Amounts written off	(4,322,712)
Other changes	(368,158)
Defaulted loans and debt securities at the end of the reporting period	19,024,653

10.3 Credit risk mitigation techniques – overview (CR3)

31 December 2021	AED '000			
	Exposures unsecured: carrying amount	Exposures partially/fully secured carrying amount	Exposures secured by collaterals	Exposures secured by financial guarantees
Loans	220,143,002	24,139,291	20,256,448	3,882,843
Debt securities	92,293,592	3,403,663	-	3,403,663
Total	312,436,594	27,542,954	20,256,448	7,286,506
Of which defaulted	18,906,207	118,446	88,823	7,777

* The above table is prepared based on Basel eligible collaterals only. Total collateral value is significantly higher and is detailed in section 10.11 of this report

10.4 Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

31 December 2021	AED '000/%					
	Exposures pre- CCF and before adjusting SP & IIS* and CRM		Exposures post- CCF and net off SP, IIS and CRM		RWA and RWA density	
	On- balance sheet amount**	Off- balance sheet amount	On- balance sheet amount	Off- balance sheet amount	RWA	RWA density
Asset classes						
Claims on sovereigns***	116,743,757	870,785	116,743,757	315,508	30,408,716	26.0%
Claims on non-commercial public sector enterprises (PSEs)	5,645,463	1,705,455	5,645,812	1,619,331	3,501,302	48.2%
Claims on multilateral development banks	753,762	-	753,762	-	-	0.0%
Claims on financial institutions****	52,601,138	30,263,157	46,226,436	12,762,681	38,033,512	64.5%
Claims on government-related entities (GREs)	61,196,206	13,721,967	61,157,266	7,327,065	50,152,508	73.2%
Claims on Corporate	53,898,109	63,294,309	45,653,359	24,311,754	68,515,341	97.9%
Claims included in the regulatory retail portfolio	43,352,234	11,947,476	38,370,479	2,397,469	33,030,021	81.0%
Claims secured by residential property	10,085,426	201,348	10,073,612	100,668	4,352,115	42.8%
Claims secured by commercial real estate	50,066,073	2,509,411	48,927,310	1,653,423	50,579,956	100.0%
Past due loans	22,397,252	-	12,826,059	-	15,933,723	124.2%
Other assets	4,939,224	640,364	4,939,224	-	5,263,691	106.6%
Total	421,678,644	125,154,272	391,317,076	50,487,899	299,770,885	

* Includes SP & IIS amounting to AED 9,883,155 thousand.

** Excludes equity investments as they carry equity/residual risk.

*** 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.

10.5 Standardised approach - exposures by asset classes and risk weights (CR5)

31 December 2021											AED '000
Asset classes	0%	20%	35%	50%	75%	85%	100%	150%	250%	Others	Total credit exposures amount (post CCF and post-CRM)*
Claims on sovereigns**	69,947,554	17,469,208	-	5,455,254	-	-	24,187,249	-	-	-	117,059,265
Claims on non-commercial public sector enterprises (PSEs)	262,538	-	-	7,002,605	-	-	-	-	-	-	7,265,143
Claims on multilateral development banks	753,762	-	-	-	-	-	-	-	-	-	753,762
Claims on financial institutions***	-	8,525,015	-	27,419,856	-	-	22,600,041	6,525	-	437,679	58,989,116
Claims on government-related entities (GREs)	-	16,310,525	-	10,566,807	-	-	41,606,999	-	-	-	68,484,331
Claims on Corporate	-	217,020	-	2,568,553	-	3,175,321	63,035,432	968,786	-	-	69,965,113
Claims included in the regulatory retail portfolio	-	-	-	2,572	30,946,566	-	9,818,810	-	-	-	40,767,948
Claims secured by residential property	-	-	8,672,302	-	740,675	-	761,303	-	-	-	10,174,280
Claims secured by commercial real estate	-	-	-	1,556	-	-	50,579,178	-	-	-	50,580,734
Past due loans	-	-	-	7,777	-	-	6,595,178	6,223,104	-	-	12,826,059
Other assets	-	-	-	-	-	-	4,403,549	479,019	56,656	-	4,939,224
Total	70,963,854	42,521,768	8,672,302	53,024,980	31,687,241	3,175,321	223,587,738	7,677,434	56,656	437,679	441,804,975

* Excludes equity investments as they carry equity/residual risk

** 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.

10.6 Gross and net credit risk exposure by asset class — Standardised Approach

Asset class	Gross exposure		EAD post CCF	EAD post CCF & CRM			AED'000
	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)	Credit risk mitigation (CRM)*	Net exposure post-CCF, CRM and other adjustments	CRWA
							Credit risk-weighted assets
31 December 2021							
Claims on sovereigns**	116,743,757	315,508	117,059,265	117,059,265	4,227,416	117,059,265	30,408,716
Claims on non-commercial public sector enterprises (PSEs)	5,645,463	1,619,832	7,265,295	7,265,295	262,690	7,265,143	3,501,302
Claims on multilateral development banks	753,762	-	753,762	753,762	661,211	753,762	-
Claims on financial institutions***	52,601,138	14,932,583	67,533,721	67,533,721	10,116,656	58,989,116	38,033,512
Claims on government-related entities (GREs)	61,196,206	7,490,502	68,686,708	68,686,708	202,246	68,484,331	50,152,508
Claims on Corporate	53,898,109	38,587,321	92,485,430	92,439,402	23,172,744	69,965,113	68,515,341
Claims included in the regulatory retail portfolio	43,352,234	2,557,021	45,909,255	45,865,042	5,099,666	40,767,948	33,030,021
Claims secured by residential property	10,085,426	100,674	10,186,100	10,186,016	11,736	10,174,280	4,352,115
Claims secured by commercial real estate	50,066,073	1,782,498	51,848,571	51,543,992	964,838	50,580,734	50,579,956
Past due loans	22,397,252	-	22,397,252	12,909,002	90,720	12,826,059	15,933,723
Other assets	4,939,224	-	4,939,224	4,939,224	-	4,939,224	5,263,691
Total	421,678,644	67,385,939	489,064,583	479,181,429	44,809,923	441,804,975	299,770,885
31 December 2020****							
Claims on sovereigns**	105,896,971	986,618	106,883,589	106,883,589	4,382,346	106,461,563	16,999,243
Claims on non-commercial public sector enterprises (PSEs)	4,422,317	1,137,936	5,560,253	5,560,253	21,010	5,539,243	-
Claims on multilateral development banks	1,144,256	-	1,144,256	1,144,256	-	1,144,256	-
Claims on financial institutions***	49,020,692	20,591,204	69,611,896	69,104,334	19,338,331	50,719,316	30,504,818
Claims on government-related entities (GREs)	48,797,726	7,315,881	56,113,607	56,113,607	1,341,191	54,432,823	43,007,542
Claims on Corporate	52,374,254	31,763,445	84,137,699	84,022,894	16,170,599	68,405,884	66,965,444
Claims included in the regulatory retail portfolio	44,680,653	2,117,300	46,797,953	46,741,178	4,880,561	42,125,175	33,602,067
Claims secured by residential property	9,656,663	93,170	9,749,833	9,748,018	18,320	9,729,698	4,191,707
Claims secured by commercial real estate	55,078,782	2,035,753	57,114,535	56,561,425	1,775,911	56,255,877	54,257,915
Past due loans	23,299,743	-	23,299,743	14,896,891	112,385	14,312,514	18,791,280
Other assets	4,947,556	-	4,947,556	4,947,556	-	4,947,556	4,984,849
Total	399,319,613	66,041,307	465,360,920	455,724,000	48,040,654	414,073,905	273,304,866

* 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.

**** Prior year's figures have been reclassified to align with the current years presentation to reflect Pillar 3 revisions

EAD – Exposure at default, CCF – Credit conversion factor, CRM – Credit risk mitigants and OTC – Over the counter

10.7 Gross and net credit risk exposure by externally rated/unrated — Standardised Approach

Asset class	Gross exposure		EAD post CCF	EAD post CCF & CRM		AED'000	
	Rated	Unrated	Gross exposure (on- & off- balance-sheet post CCF)	Exposure pre-CRM (net of specific provision and IIS)	Credit risk mitigation (CRM)*	Net exposure post-CCF, CRM and other adjustments	CRWA
							Credit risk-weighted assets
31 December 2021							
Claims on sovereigns **	102,738,903	14,320,362	117,059,265	117,059,265	4,227,416	117,059,265	30,408,716
Claims on non-commercial public sector enterprises (PSEs)	485,407	6,779,888	7,265,295	7,265,295	262,690	7,265,143	3,501,302
Claims on multilateral development banks	753,762	-	753,762	753,762	661,211	753,762	-
Claims on financial institutions***	50,730,883	16,802,838	67,533,721	67,533,721	10,116,656	58,989,116	38,033,512
Claims on government-related entities (GREs)	33,590,267	35,096,441	68,686,708	68,686,708	202,246	68,484,331	50,152,508
Claims on Corporate	13,406,584	79,078,846	92,485,430	92,439,402	23,172,744	69,965,113	68,515,341
Claims included in the regulatory retail portfolio	-	45,909,255	45,909,255	45,865,042	5,099,666	40,767,948	33,030,021
Claims secured by residential property	-	10,186,100	10,186,100	10,186,016	11,736	10,174,280	4,352,115
Claims secured by commercial real estate	-	51,848,571	51,848,571	51,543,992	964,838	50,580,734	50,579,956
Past due loans	-	22,397,252	22,397,252	12,909,002	90,720	12,826,059	15,933,723
Other assets	-	4,939,224	4,939,224	4,939,224	-	4,939,224	5,263,691
Total	201,705,806	287,358,777	489,064,583	479,181,429	44,809,923	441,804,975	299,770,885
31 December 2020****							
Claims on sovereigns **	92,792,880	14,090,709	106,883,589	106,883,589	4,382,346	106,461,563	16,999,243
Claims on non-commercial public sector enterprises (PSEs)	476,282	5,083,971	5,560,253	5,560,253	21,010	5,539,243	-
Claims on multilateral development banks	1,144,256	-	1,144,256	1,144,256	-	1,144,256	-
Claims on financial institutions***	56,649,730	12,962,166	69,611,896	69,104,334	19,338,331	50,719,316	30,504,818
Claims on government-related entities (GREs)	27,677,363	28,436,244	56,113,607	56,113,607	1,341,191	54,432,823	43,007,542
Claims on Corporate	16,303,147	67,834,552	84,137,699	84,022,894	16,170,599	68,405,884	66,965,444
Claims included in the regulatory retail portfolio	-	46,797,953	46,797,953	46,741,178	4,880,561	42,125,175	33,602,067
Claims secured by residential property	-	9,749,833	9,749,833	9,748,018	18,320	9,729,698	4,191,707
Claims secured by commercial real estate	-	57,114,535	57,114,535	56,561,425	1,775,911	56,255,877	54,257,915
Past due loans	-	23,299,743	23,299,743	14,896,891	112,385	14,312,514	18,791,280
Other assets	-	4,947,556	4,947,556	4,947,556	-	4,947,556	4,984,849
Total	195,043,659	270,317,261	465,360,920	455,724,000	48,040,654	414,073,905	273,304,866

* 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.

**** Prior year's figures have been reclassified to align with the current years presentation to reflect Pillar 3 revisions

EAD – Exposure at default, CCF – Credit conversion factor, CRM – Credit risk mitigants and OTC – Over the counter

Use of external ratings

The standardised approach allows banks to use risk assessments prepared by external credit assessment institutions (ECAI) to determine the risk weightings applied to rated counterparties. The Bank uses CBUAE-recognised ECAI risk assessments to determine the risk weight for certain counterparties according to the BIS defined exposure segments.

ADCB uses three CBUAE-recognised ECAI for this purpose: Moody's Investors Service, Standard & Poor's and Fitch Ratings. The mapping of external ratings to the standardised approach risk weights is determined by CBUAE (published in Standards and Guidance for Capital Adequacy of Banks in the UAE dated November 2020).

10.8 Gross credit risk by currency

	Loans	Investment securities	Other assets	Total funded	Commitments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
									AED'000
31 December 2021									
AED	182,634,506	5,313,857	38,883,371	226,831,734	6,715,346	1,387,337	15,833,679	23,936,362	250,768,096
USD	73,923,833	83,205,332	44,270,535	201,399,700	3,815,915	7,698,157	23,927,992	35,442,064	236,841,764
EUR	1,024,316	5,407,616	187,799	6,619,731	2,405	395,679	1,655,341	2,053,425	8,673,156
CHF	-	-	14,872	14,872	-	-	2,093	2,093	16,965
GBP	2	-	59,422	59,424	-	125,604	38,532	164,136	223,560
MYR	-	-	4,816	4,816	-	-	2	2	4,818
Other	813,489	1,790,160	383,474	2,987,123	44,353	2,205,028	3,538,476	5,787,857	8,774,980
Less: Acceptances	-	-	(16,238,756)	(16,238,756)	-	-	-	-	(16,238,756)
Total	258,396,146	95,716,965	67,565,533	421,678,644	10,578,019	11,811,805	44,996,115	67,385,939	489,064,583
31 December 2020									
AED	195,111,451	-	34,585,306	229,696,757	5,341,359	2,994,495	19,425,309	27,761,163	257,457,920
USD	56,454,536	78,943,530	29,100,342	164,498,408	3,250,533	12,924,407	13,353,920	29,528,860	194,027,268
EUR	1,093,300	4,925,652	239,890	6,258,842	-	584,585	1,266,460	1,851,045	8,109,887
CHF	-	-	46,177	46,177	-	-	13,146	13,146	59,323
GBP	7	-	437,377	437,384	-	165,708	21,888	187,596	624,980
MYR	-	-	4,816	4,816	-	-	-	-	4,816
Other	880,965	3,361,653	943,960	5,186,578	130,943	3,209,823	3,358,731	6,699,497	11,886,075
Less: Acceptances	-	-	(6,809,349)	(6,809,349)	-	-	-	-	(6,809,349)
Total	253,540,259	87,230,835	58,548,519	399,319,613	8,722,835	19,879,018	37,439,454	66,041,307	465,360,920

10.9 Gross credit risk by geography

	Loans	Investment securities	Other assets	Total funded	Commitments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
									AED'000
31 December 2021									
Domestic (UAE)	233,860,174	41,215,755	49,792,041	324,867,970	9,451,583	6,237,702	31,810,373	47,499,658	372,367,628
Other GCC countries	6,041,441	25,936,394	7,550,256	39,528,091	877,240	255,146	1,147,612	2,279,998	41,808,089
Other Arab countries	8,941,096	6,213,329	4,118,837	19,273,262	16,529	-	315,091	331,620	19,604,882
Asia	4,610,457	12,210,010	12,111,887	28,932,354	3,471	26,064	6,305,317	6,334,852	35,267,206
Europe	3,098,788	3,593,524	6,798,409	13,490,721	41,264	4,384,233	3,873,578	8,299,075	21,789,796
USA	6,045	3,305,991	102,680	3,414,716	15,854	93	231,076	247,023	3,661,739
Rest of the world	1,838,145	3,241,962	3,330,180	8,410,287	172,078	908,567	1,313,068	2,393,713	10,804,000
Less: Acceptances	-	-	(16,238,757)	(16,238,757)	-	-	-	-	(16,238,757)
Total	258,396,146	95,716,965	67,565,533	421,678,644	10,578,019	11,811,805	44,996,115	67,385,939	489,064,583
31 December 2020									
Domestic (UAE)	236,853,576	40,979,593	44,795,589	322,628,758	8,123,028	6,925,291	30,698,199	45,746,518	368,375,276
Other GCC countries	4,662,455	22,925,664	3,210,713	30,798,832	553,834	257,684	607,087	1,418,605	32,217,437
Other Arab countries	5,555,642	4,119,168	2,458,103	12,132,913	-	-	832,050	832,050	12,964,963
Asia	2,099,793	9,907,671	4,405,376	16,412,840	42,961	25,216	2,192,272	2,260,449	18,673,289
Europe	2,294,123	2,525,456	7,817,211	12,636,790	-	11,920,528	2,614,395	14,534,923	27,171,713
USA	4,248	3,000,609	758,468	3,763,325	3,012	918	413,338	417,268	4,180,593
Rest of the world	2,070,422	3,772,674	1,912,408	7,755,504	-	749,381	82,113	831,494	8,586,998
Less: Acceptances	-	-	(6,809,349)	(6,809,349)	-	-	-	-	(6,809,349)
Total	253,540,259	87,230,835	58,548,519	399,319,613	8,722,835	19,879,018	37,439,454	66,041,307	465,360,920

10.10 Gross credit risk by residual maturity

	Loans	Investment securities	Other assets	Total funded	Commitments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
									AED'000
31 December 2021									
Less than 3 months	66,658,155	7,143,025	48,615,399	122,416,579	872,848	1,121,683	5,395,062	7,389,593	129,806,172
3 months to less than 6 months	7,609,694	5,011,174	14,113,878	26,734,746	671,982	652,396	8,395,501	9,719,880	36,454,626
6 months to less than 1 year	18,232,045	5,939,289	15,887,727	40,059,061	3,002,001	917,549	14,534,820	18,454,370	58,513,431
1 year to 3 years	32,794,988	18,374,675	2,842,756	54,012,419	4,391,608	1,708,881	16,141,156	22,241,645	76,254,064
Over 3 years	133,101,264	59,248,802	2,344,529	194,694,595	1,639,580	7,411,296	529,576	9,580,452	204,275,047
Less: Acceptances	-	-	(16,238,756)	(16,238,756)	-	-	-	-	(16,238,756)
Total	258,396,146	95,716,965	67,565,533	421,678,644	10,578,019	11,811,805	44,996,115	67,385,939	489,064,583
31 December 2020									
Less than 3 months	60,100,701	2,565,223	46,397,669	109,063,593	876,040	2,298,459	4,464,652	7,639,151	116,702,744
3 months to less than 6 months	11,093,093	7,470,294	7,209,818	25,773,205	988,802	828,671	3,348,092	5,165,565	30,938,770
6 months to less than 1 year	8,440,699	4,464,989	6,238,332	19,144,020	1,838,691	798,633	8,209,063	10,846,387	29,990,407
1 year to 3 years	40,106,869	21,330,084	3,171,224	64,608,177	4,129,154	4,752,121	20,879,114	29,760,389	94,368,566
Over 3 years	133,798,897	51,400,245	2,340,825	187,539,967	890,148	11,201,134	538,533	12,629,815	200,169,782
Less: Acceptances	-	-	(6,809,349)	(6,809,349)	-	-	-	-	(6,809,349)
Total	253,540,259	87,230,835	58,548,519	399,319,613	8,722,835	19,879,018	37,439,454	66,041,307	465,360,920

10.11 Gross credit risk by economic sector

	Loans	Investment securities	Other assets	Total funded	Commitments (post-CCF)	OTC derivatives	Other off-balance sheet exposures (post-CCF)	Total non-funded	Total
AED'000									
31 December 2021									
Agriculture	175,335	-	-	175,335	2,415	-	85,692	88,107	263,442
Energy	6,332,865	2,229,525	-	8,562,390	1,067,291	36,444	273,459	1,377,194	9,939,584
Trading	11,735,570	423,071	-	12,158,641	836,863	195,698	15,374,690	16,407,251	28,565,892
Real estate	60,463,134	790,723	1,674,954	62,928,811	1,910,098	592,460	15,944,847	18,447,405	81,376,216
Hospitality	10,966,961	-	-	10,966,961	7,927	-	164,721	172,648	11,139,609
Transport & communication	3,149,790	-	-	3,149,790	88,531	48,128	515,394	652,053	3,801,843
Personal	53,581,802	-	-	53,581,802	454,726	1,044,664	653,941	2,153,331	55,735,133
Government & PSEs	67,123,716	82,787,340	33,746,694	183,657,750	4,294,991	3,063,382	2,361,721	9,720,094	193,377,844
Financial institutions*	18,191,790	8,547,640	26,711,749	53,451,179	1,066,875	5,941,238	7,207,097	14,215,210	67,666,389
Manufacturing	7,113,595	805,063	-	7,918,658	45,569	73,512	1,430,500	1,549,581	9,468,239
Services	6,277,874	133,603	-	6,411,477	216,586	90,960	851,450	1,158,996	7,570,473
Others	10,000,245	-	21,670,892	31,671,137	586,149	725,320	132,605	1,444,074	33,115,211
Add: Interest in suspense	3,283,469	-	-	3,283,469	-	-	-	-	3,283,469
Less: Acceptances	-	-	(16,238,756)	(16,238,756)	-	-	-	-	(16,238,756)
Total	258,396,146	95,716,965	67,565,533	421,678,644	10,578,019	11,811,805	44,996,115	67,385,939	489,064,583
31 December 2020									
Agriculture	405,377	-	-	405,377	-	-	23,249	23,249	428,626
Energy	5,699,346	1,510,201	-	7,209,547	606,977	52,340	249,467	908,784	8,118,331
Trading	9,085,235	378,933	-	9,464,168	623,465	247,948	7,030,295	7,901,708	17,365,876
Real estate	72,636,077	953,055	1,643,957	75,233,089	1,724,473	681,880	16,119,989	18,526,341	93,759,430
Hospitality	10,919,804	-	-	10,919,804	142,643	-	163,076	305,720	11,225,524
Transport & communication	3,935,691	-	-	3,935,691	82,757	232,580	417,786	733,123	4,668,814
Personal	54,850,714	-	-	54,850,714	646,763	941,058	737,208	2,325,029	57,175,743
Government & PSEs	53,651,448	74,463,405	29,602,072	157,716,925	3,972,734	2,299,373	3,205,640	9,477,747	167,194,672
Financial institutions*	17,753,248	9,440,038	21,582,011	48,775,297	93,856	15,110,532	6,066,186	21,270,574	70,045,871
Manufacturing	6,039,587	402,985	-	6,442,572	40,918	52,958	1,203,687	1,297,563	7,740,135
Services	5,908,128	11,401	-	5,919,529	369,025	63,167	918,454	1,350,646	7,270,175
Others	9,568,575	70,817	12,529,828	22,169,220	419,224	197,182	1,304,417	1,920,823	24,090,043
Add: Interest in suspense	3,087,029	-	-	3,087,029	-	-	-	-	3,087,029
Less: Acceptances	-	-	(6,809,349)	(6,809,349)	-	-	-	-	(6,809,349)
Total	253,540,259	87,230,835	58,548,519	399,319,613	8,722,835	19,879,018	37,439,454	66,041,307	465,360,920

10.12 Credit 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 Bank's 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 BRC (erstwhile BREC). 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 2021, the Bank had total mortgage collateral of AED 142,245 mn (includes assignment over lease-hold properties and selected secondary mortgages of AED 7,461 mn) (2020: AED 156,430 mn) almost all of it in the UAE and over 50% in Abu Dhabi with the rest across other Emirates.
- b) **Financial instruments collateral** — only publicly listed company shares are accepted as collateral for corporate and high-net-worth individual facilities. There is a process to evaluate mark to market on a daily basis and this affects the drawing power against these facilities. All 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 2021, the Bank had total share collateral of AED 49,248 mn (2020: AED 37,158 mn), predominantly listed on the Abu Dhabi Stock Exchange.
- c) **Cash collateral** — The Bank also takes cash collateral primarily from commercial banking and mid-corporate customers and as trade margins for trade finance transactions. As at 31 December 2021, the Bank had AED 20,680 mn in cash and near-cash collaterals (2020: AED 16,426 mn).
- d) **Guarantees from highly rated banks, corporate 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 2021, the guarantee accepted by the Bank amounted to AED 7,433 mn (2020: AED 6,391 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 21,195 mn as at 31 December 2021 (2020: AED 22,238 mn).

Treasury products

The Bank has counterparty limits in place to mitigate its credit exposure for Treasury products and in the process enters into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Counterparty 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 International Swaps and Derivatives Association (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 2021, the Bank held AED 992 mn and posted AED 4,786 mn of collaterals (cash and bonds) for CSA/GMRA purposes (2020 – AED 6,066 mn)). In general, the Bank does not use credit derivatives or credit default swaps as a credit risk mitigant.

Eligible collaterals

As per the 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. For ADCB, collateral primarily includes share and cash collaterals.
- ▶ 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.

10.13 Impairment analysis

The Banks's Risk function 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 credit risk exposure were as follows:

(a) Impaired loans by geography

	AED '000				
	Impaired exposures (gross of interest in suspense & individual impairment)	Impairment allowance		Interest in suspense	Total impaired exposures (net of interest in suspense & individual impairment)
	90 days and above/ Stage 3 and POCI	Individual*	Collective**		
31 December 2021					
Domestic (UAE)	22,068,680	6,724,897	-	3,042,917	12,300,866
Other GCC countries	388,050	67,120	-	212,658	108,272
Other Arab countries	245,113	131,724	-	27,815	85,574
Asia	68,218	38,426	-	57	29,735
Europe	7	-	-	7	-
Rest of the world	917	84	-	15	818
Total	22,770,985	6,962,251	4,560,205	3,283,469	12,525,265
31 December 2020***					
Domestic (UAE)	23,285,685	7,409,654	-	2,875,939	13,000,092
Other GCC countries	347,435	45,781	-	185,356	116,298
Other Arab countries	136,377	57,761	-	16,654	61,962
Asia	37,057	2,193	-	48	34,816
Europe	126,769	104,107	-	9,030	13,632
Rest of the world	117	52	-	3	62
Total	23,933,440	7,619,548	4,709,721	3,087,030	13,226,862

*Stage 3 and POCI expected credit losses (ECL)

**Stage 1 and 2 expected credit losses (ECL) and includes impairment allowance on banks, central bank balances, investments, other assets, letter of credit, guarantees and other commitments

*** Prior year's figures have been reclassified to align with the current years presentation to reflect Pillar 3 revisions

(b) Impaired loans by economic sector

					AED '000
	Impaired exposures (gross of interest in suspense & individual impairment)	Impairment allowance		Interest in suspense	Total impaired exposures (net of interest in suspense & individual impairment)
		90 days and above/ Stage 3 and POCI	Individual*		
31 December 2021					
Agriculture	12,795	2,977	-	5,086	4,732
Energy	34,226	19,528	-	48	14,650
Trading	514,893	184,920	-	49,015	280,958
Real estate	11,856,949	4,306,574	-	1,538,144	6,012,232
Hospitality	834,626	98,661	-	143,398	592,567
Transport	284,823	49,088	-	19,008	216,727
Personal	2,502,102	752,322	-	697,665	1,052,115
Government & PSE	-	-	-	-	-
Financial institutions	1,703,525	175,167	-	357,579	1,170,779
Manufacturing	876,389	405,411	-	129,041	341,937
Services	3,923,953	898,654	-	269,944	2,755,355
Others	226,704	68,949	-	74,541	83,214
Total	22,770,985	6,962,251	4,560,205	3,283,469	12,525,265
31 December 2020***					
Agriculture	371,880	144,662	-	166,974	60,244
Energy	14,236	2,419	-	31	11,786
Trading	508,102	157,012	-	43,284	307,806
Real estate	10,844,531	3,679,294	-	1,143,116	6,022,121
Hospitality	1,088,134	56,785	-	159,541	871,808
Transport	641,370	304,221	-	108,836	228,313
Personal	3,361,755	1,048,792	-	870,567	1,442,396
Government & PSE	-	-	-	-	-
Financial institutions	1,987,051	656,536	-	271,224	1,059,291
Manufacturing	944,653	536,376	-	101,362	306,915
Services	3,934,458	973,237	-	150,864	2,810,357
Others	237,270	60,214	-	71,231	105,825
Total	23,933,440	7,619,548	4,709,721	3,087,030	13,226,862

*Stage 3 and POCI expected credit losses (ECL)

**Stage 1 and 2 expected credit losses (ECL) and includes impairment allowance on banks, central bank balances, investments, other assets, letter of credit, guarantees and other commitments

*** Prior year's figures have been reclassified to align with the current years presentation to reflect Pillar 3 revisions

11. Market Risk

11.1 Market risk capital requirement

Capital is allocated in respect of market risk under the frameworks set out in the Standards and Guidance issued by the Central Bank of UAE in November 2020. These standards/guidance articulates specific requirements for the calculation of the market risk capital requirement for banks in the UAE. It is based closely on requirements of the framework for capital adequacy developed by the Basel Committee on Banking Supervision (BCBS), specifically as articulated in Basel 2: International Convergence of Capital Measurement and Capital Standards, June 2006, and subsequent revisions and clarifications thereto.

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	
	31-Dec-21	31-Dec-20
Interest rate risk	874,452	965,266
Equity position risk	11,408	-
Foreign exchange risk	262,066	163,672
Commodity risk	-	393
Options risk	121,914	61,639
Total Capital Requirement	1,269,840	1,190,970

	AED'000			
	31-Dec-21		31-Dec-20	
	Risk-weighted	Capital requirements	Risk-weighted assets	Capital requirements
Interest rate risk — trading book				
Specific risk	108,491	14,646	-	-
General risk — maturity-based	6,368,933	859,806	7,150,117	965,266
General risk — duration-based	-	-	-	-
Foreign exchange risk	1,941,231	262,066	1,212,389	163,672
Equity exposure risk- trading book				
General risk	42,250	5,704	-	-
Specific risk	42,250	5,704	-	-
Commodity risk- trading book	-	-	2,908	393
Options risk				
Simplified approach	-	-	-	-
Intermediate approach	903,071	121,914	456,587	61,639
Total market risk capital charge	9,406,226	1,269,840	8,822,001	1,190,970

Note : Capital requirements calculated based on minimum CAR ratio (i.e 13.5% including regulatory buffers)

12. Counterparty credit risk

Counterparty credit risk (CCR) is the risk that the Group's exposure in a foreign exchange, interest rate, commodity, equity or credit derivative defaults prior to the maturity date of the contract and that the Group at the time has a claim on the counterparty.

CCR limits are set for individual counterparties, including central clearing counterparties. Individual limits are set on Potential Future Exposure (PFE).

The Group reduces its credit exposures to counterparties by entering into contractual netting agreements which result in a single amount owed by or to the counterparty. The amount is calculated by netting the mark-to-market (MTM) owed by the counterparty to the Group and the MTM owed by the Group to the counterparty on the transactions covered by the netting agreement. In line with the International Accounting Standard (IAS) 32 principles, the Group's balance sheet will present assets and liabilities on a net basis provided there is a legally enforceable right to set off assets and liabilities, and the Group intends to settle on a net basis or realise the asset and liability simultaneously.

The below table shows all types of collateral posted or received by banks to support or reduce the counterparty credit risk exposures related to derivative transactions or to SFTs, whether or not the transactions are cleared through a CCP and whether or not the collateral is posted to a CCP.

12.1 Composition of collateral for CCR exposure (CCR 5)

31 December 2021	AED '000					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	739,661	-	1,080,496	-	-
Domestic sovereign debt	-	-	-	256,752	-	-
Government agency debt	-	252,669	1,960,435	714,761	-	-
Other bonds	-	-	-	260,116	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	992,330	1,960,435	2,312,125	-	-

The following table specifies the methods used by the Bank to calculate counterparty credit risk regulatory requirements, followed by table which demonstrates the risk-weighted exposure amounts to central counterparties by derivative types.

12.2 Analysis of CCR exposure by approach (CCR1)

31 December 2021	AED '000						
	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory	EAD post-CRM	RWA	
				EAD			
SA-CCR (for derivatives)	3,312,843	5,124,160	-	1.4	11,811,805	7,756,336	
Internal Model Method (for derivatives and SFTs)	-	-	-	-	-	-	
Simple Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-	
Comprehensive Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-	
VaR for SFTs	-	-	-	-	-	-	
Total	3,312,843	5,124,160	-	-	11,811,805	7,756,336	

12.3 Exposures to central counterparties (CCR8)

31 December 2021	EAD (post- CRM)	AED '000 RWA
Exposures to QCCPs (total)	2,398,114	8,754
Exposures for trades at QCCPs (excluding initial margin and default fund contribution); of which:		
(i) OTC derivatives	437,679	8,754
(ii) Exchange-traded derivatives	-	-
(iii) Securities financing transactions	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	1,960,435	-
Non-segregated initial margin	-	-
Pre-funded default fund contributions	-	-
Unfunded default fund contributions	-	-
Exposures to non-QCCPs (total)		
Exposures for trades at non-QCCPs (excluding initial margin and default fund contribution); of which:		
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) Securities financing transactions	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	-	-
Pre-funded default fund contributions	-	-
Unfunded default fund contributions	-	-

The following table indicates the notional amounts of credit derivative transactions segregated between protection bought and sold within each product type.

12.4 Credit derivatives exposures (CCR6)

31 December 2021	Protection bought	AED '000 Protection sold
Notionals		
Single-name credit default sw aps	-	-
Index credit default sw aps	-	-
Total return sw aps	724,609	1,101,900
Credit options	-	-
Other credit derivatives	-	-
Total notionals	724,609	1,101,900
Fair values		
Positive fair value (asset)	32,779	-
Negative fair value (liability)	-	-

Table below depicts EAD after the effect of collateral associated with each risk weight

12.5 Standardised approach - CCR exposures by regulatory portfolio and risk weights (CCR3)

31 December 2021	Risk weights							Total credit exposure	AED '000
	0%	20%	50%	75%	100%	150%	Others		
Claims on sovereigns	97,383	-	883	-	16	-	-	98,282	
Claims on non-commercial public sector enterprises (PSEs)	-	-	-	-	-	-	-	-	
Claims on multilateral development banks	-	-	-	-	-	-	-	-	
Claims on financial institutions*	-	1,076,237	4,003,219	-	424,102	-	437,679	5,941,237	
Claims on government-related entities (GREs)	-	18,324	1,296,966	-	1,649,811	-	-	2,965,101	
Claims on Corporate	-	-	-	-	1,741,148	21,372	-	1,762,520	
Claims included in the regulatory retail portfolio	-	-	-	54,654	990,010	-	-	1,044,664	
Claims secured by residential property	-	-	-	-	-	-	-	-	
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	
Past due loans	-	-	-	-	-	-	-	-	
Other assets	-	-	-	-	-	-	-	-	
Total	97,383	1,094,561	5,301,068	54,654	4,805,088	21,372	437,679	11,811,805	

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

13. Interest rate risk in the banking book (IRRBB)

Interest Rate Risk in the Banking Book (IRRBB) refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions. Excessive IRRBB can pose significant threat to a Bank's capital base and/or earnings if not managed prudently. Changes in interest rates affect the underlying economic value of the Bank's banking book assets, liabilities and off balance sheet instruments by changing the present value of future cash flows. Changes in interest rates also affect Bank's earnings by increasing or decreasing its EaR (Earnings at Risk) / NII (Net Interest Income). The Bank manages IRRBB through both economic value and earnings based measures. The three main sub-types of IRRBB are as follows:

- ▶ **Gap Risk:** arises from the term structure of banking book instruments and describes the risk arising from the timing of instruments' rate changes.
- ▶ **Basis Risk:** arises from financial instruments having similar tenors but are priced using different interest rate indices.
- ▶ **Option Risk:** arises from Bank's assets, liabilities and/or off balance sheet item where the bank or its customers can alter the level and timing of their cash flows.

The Bank's IRRBB policy sets guidelines and framework to identify, measure, evaluate, monitor, report and control or mitigate material sources of IRRBB on a timely basis. IRRBB policy aims to define the risk governance framework and IRRBB risk tolerance limits.

IRRBB measures Economic Value of Equity (EVE) and Earnings at Risk (EaR) are calculated, reported and monitored on a monthly basis against prescribed limits.

Roles and Responsibilities

Board: the overall responsibility for establishing, maintaining and overseeing a robust IRRBB risk governance framework lies with the Board. The Board may delegate monitoring and management of IRRBB to senior management committees or an asset and liability management committee (ALCO). Specifically, the Board's roles and responsibilities include:

- ▶ Understanding the nature and level of Bank's IRRBB exposure;
- ▶ Defining risk tolerance limits;
- ▶ Approve and Review Bank's IRRBB strategy, policy and process;
- ▶ Establishing adequate systems and standards for measuring IRRBB;
- ▶ Monitoring compliance with all internal policies and procedures and
- ▶ Delegating monitoring and management of IRRBB to competent senior management committees or ALCO.

ALCO: senior executives of the Bank constitute the Assets & Liability Committee. ALCO operates as the functional unit for monitoring and managing Bank's IRRBB exposure within the risk tolerance limits established by the Board and delegated management by the Management Executive Committee (MEC)

Market Risk: risk management function includes policies, procedures and systems for monitoring and reporting to ensure that IRRBB exposures are aligned with the Board approved risk tolerance limits. Specifically, Market Risk team's roles and responsibilities include:

- ▶ Determination of appropriate stress scenarios;
- ▶ Develop methodologies, models for measurement of IRRBB;
- ▶ Recommend appropriate risk limits for IRRBB;
- ▶ Independently calculate IRRBB exposures and monitor against Board approved limits and
- ▶ Report IRRBB exposures both internally to the Board/ALCO and externally to the CBUAE in the prescribed format and frequency.

Internal Audit: Internal Audit function independently reviews controls and processes around IRRBB.

Treasury: the primary responsibility of Treasury function is to undertake risk mitigation actions on Board's/ALCO's directive in case the Bank has excessive IRRBB exposure against prescribed risk tolerance limits.

Economic Value of Equity (EVE)

Measurement of Bank's IRRBB through economic value measures involves below steps:

- a) Interest rate sensitive banking book positions are allocated to one of the three categories i.e. amenable to standardization, less amenable to standardization and not amenable to standardization.
- b) Determination of slotting of notional re-pricing cash flows based on the above categorization of banking book positions. Commercial margins are not included in the cash flows and discounting curves.
- c) Determination of delta EVE for below six Basel prescribed interest rate shock scenarios for each currency. Currencies where exposure is less than 5% of total banking book assets or liabilities need not have a separate delta EVE computation.
 - (i) Parallel shock up;
 - (ii) Parallel shock down;
 - (iii) Steepener shock (short rates down and long rates up);
 - (iv) Flattener shock (short rates up and long rates down);
 - (v) Short rates shock up and
 - (vi) Short rates shock down.
- d) Add-ons for changes in the value of options are added to the delta EVE computed above.
- e) IRRBB EVE risk measure is computed as the maximum of worst delta EVE across all the six Basel prescribed stress scenarios.

Earnings at Risk (EaR)

Measurement of Bank's IRRBB through earnings based measures is similar to economic value measures except that earnings based measures are limited up-to a shorter time horizon. Following steps are involved in measurement of earnings based IRRBB:

- a) Interest rate sensitive banking book positions are allocated to one of the three categories i.e. amenable to standardisation, less amenable to standardization and not amenable to standardisation;
- b) Determination of slotting of notional re-pricing cash flows based on the above categorization of banking book positions;
- c) All notional re-pricing cash flows are slotted into respective time buckets. Within a given time bucket, all notional re-pricing cash flows are netted to form a single long or short position. The process is followed for all time buckets;
- d) Delta NII for each stress scenario and currency is computed as product of long or short position (as calculated in step c) by the assumed change in interest rate.

Following points are factored in IRRBB measurements:

- a) Banking book positions without a fixed maturity are replicated with different maturity profiles. The re-fixing of interest rate is performed according to the respective maturity profile;
- b) Early withdrawal risk on Term Deposits and Prepayment Risk on Fixed Rate Loans the banking book are not material and
- c) Interest rate swaps are used to manage the interest rate risk in the banking book.

13.1 Repricing maturity assigned to non-maturity deposits (NMDs) (IRRBBA1)

31 December 2021	Years
Average and Longest maturity assigned in years	
Weighted average maturity	2.2
Longest maturity	3.5

13.2 Quantitative information on IRRBB (IRRBB1)

31 December 2021	AED '000	
	ΔEVE	ΔNII
Parallel up	3,465,209	957,480
Parallel down	(5,939,366)	(1,648,463)
Steeper	4,289,279	
Flattener	(3,456,357)	
Short rate up	(919,975)	
Short rate down	1,554,675	
Maximum	4,289,279	
Period	31-Dec-21	
Tier 1 capital	49,108,862	

14. Prudential valuation adjustments (PVAs)

The provisions on prudential valuation require banks to quantify several valuation uncertainties pertaining to the mark-to-market or mark-to-model valuation of derivative assets and liabilities recorded at fair value for accounting purposes. Valuation provisions results from market prices, close-out costs, model risk, unearned credit spreads, investing and funding costs, concentrated positions, future administrative costs, early terminations and operational risks.

31 December 2021	AED '000							
	Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
Closeout uncertainty, of which:								
Mid-market value	-	-	-	-	-	-	-	-
Closeout cost	-	8,524	2,275	-	-	10,799	10,799	-
Concentration	-	5,053	-	-	-	5,053	5,053	-
Early termination	-	-	-	-	-	-	-	-
Model risk	-	-	987	-	-	987	987	-
Operational risk	-	-	-	-	-	-	-	-
Investing and funding costs	-	-	-	-	-	-	-	-
Unearned credit spreads	-	-	-	-	-	-	-	-
Future administrative costs	-	-	-	-	-	-	-	-
Other	-	97,788	-	13,549	-	111,337	104,384	6,953
Total adjustment	-	111,365	3,262	13,549	-	128,176	121,223	6,953

15. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. While including legal, but excluding strategic and reputational risk, damage to the Bank's reputation, legal or regulatory implications, financial losses and other factors are being considered when assessing impact of operational risk events.

Operational risk is inherent in all dimensions of the Bank, including all banking products, activities, processes and systems, therefore the effective management of operational risk is a fundamental element of the Bank's risk management program.

The Board assumes an overall responsibility for operational risk management. This includes defining risk appetite for operational risk, approval of the Operational Risk Management Framework, oversight of senior management to ensure that strategies, policies and processes are implemented effectively at all levels and review.

The objective of the Group is to manage and control operational risk in a proactive and cost-effective manner within targeted levels of operational risk consistent with a defined risk appetite. ADCB primarily aims at early identification and assessment of operational risks allowing timely mitigation, as well as meaningful management reporting and continuous improvement of the control environment.

Ongoing management of operational risk is coordinated by the Group Operational Risk Management (GORM) and reviewed and monitored by a dedicated Operational Risk Working Group (ORWG) and Management Executive Committee (MEC) as applicable for policy purposes.

The Group Operational risk management function continues to lead the effort to embed the enhanced Operational Risk Management Framework ('ORMF') across the Group. The main focus is on the consistency in application of the core tools such as risk and control self-assessment (RCSAs), key risk indicators (KRIs) and control testing and timeliness of material incident reporting. Implementation of a new Operational Risk Management System (ORMS) started with the first phase expected to be completed in a year's time.

To mitigate increased operational risk resulting from Covid-19 pandemic, a cross-functional team led by Group Operational Risk continued to oversee the impact to business processes to ensure they remained within the Bank's risk appetite.

The enhanced ORMF currently being embedded enables an end-to-end view of non-financial risks, facilitating focus on the risks that are critical to achieving the Group's strategic objectives and associated controls. It provides a platform to drive forward-looking risk awareness and assist management focus. It also helps the organisation understand the level of risk it is willing to accept.

Three lines of defence

To create a robust control environment to manage risks, the Group uses an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment. The model underpins the Group's approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.

The three lines of defence are summarised below:

- ▶ First line of defence (Business Unit) — owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.
- ▶ The second line of defence (Group Operational Risk management, Compliance, Fraud Risk Management, Information & Physical Security Governance, Data Management, Market Risk, Islamic Internal Control, etc.) — defines the frameworks, policies and guidelines for managing specific risk areas, and provides advice and guidance in relation to the risk, and challenges the first line of defence on effective risk management.
- ▶ The third line of defence (Group Internal Audit function) — provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Group's risk management framework and control governance process.

Risk identification, monitoring and reporting

The risk identification and assessment process involves risk assessment of new initiatives, which may include new products, processes, systems or third party engagements. 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 reporting 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 ISO22301:2012 certified business continuity framework for the UAE 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.

Risk Measurement

For operational risk measurement and determination of the amount that the Bank needs to hold to absorb potential operational losses, ADCB follows the standardised approach under Basel 3. The capital charge including buffer requirements for the year ended 31 December 2021 was AED 3,043,286 thousand (2020: AED 3,134,575 thousand).

16. Remuneration

16.1 Remuneration awarded during the financial year (REM 1)

31 December 2021		Remuneration in AED '000
		Senior Management/ Other material risk-takers
Fixed Remuneration	Number of employees	12
	Total fixed remuneration (A)	32,121
	Of which: cash-based	29,305
	Of which: deferred	2,816
Variable Remuneration	Number of employees	12
	Total variable remuneration (B)	38,350
	Of which: cash-based	20,760
	Of which: deferred	17,590
	Of which: shares or other share-linked instruments	8,795
	Of which: cash	8,795
Total Remuneration (A + B)		70,471

16.2 Special payments (REM2)

There were no special payments made to the senior management/other material risk takers as such REM2 is not applicable.

16.3 Deferred remuneration (REM 3)

31 December 2021		AED '000			
Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management/Other material risk takers					
Cash	12,833	12,833	-	-	17,617
Shares	5,863	5,863	-	-	2,932
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	18,696	18,696	-	-	20,549