A Better Way

AMBITION + DISCIPLINE

Abu Dhabi Commercial Bank PJSC
2014 Annual Report

بنك أبوظبي التجاري
ADCB

His Highness
Sheikh Khalifa bin Zayed Al Nahyan

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

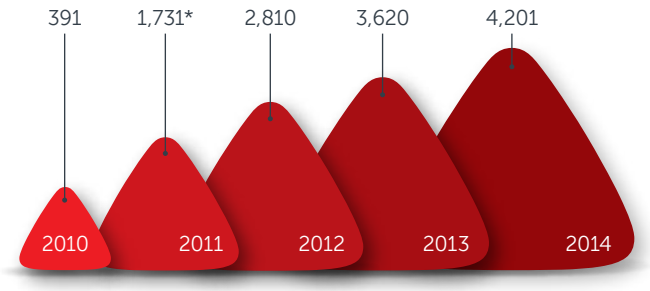
His Highness
General Sheikh Mohammed bin Zayed Al Nahyan

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

Financial Highlights

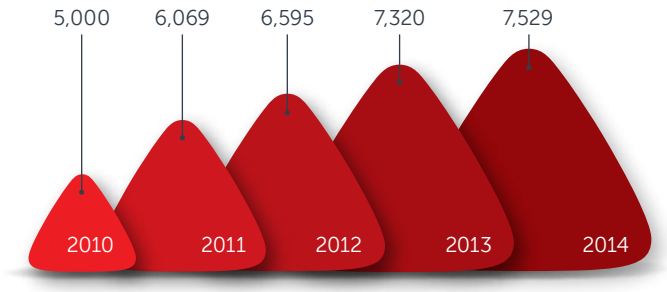
Net Profit (AED MN)

16% increase in the past year



Total Operating Income (AED MN)

3% increase in the past year



Return on Equity

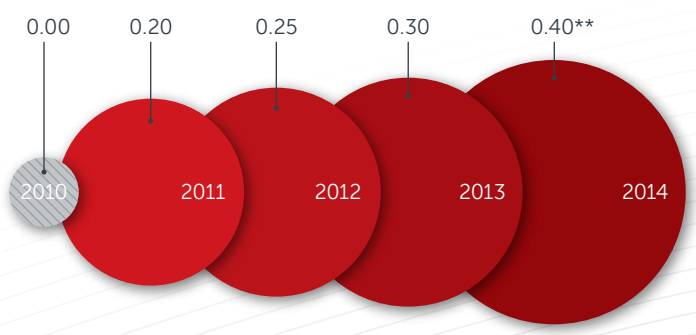
18.14% in 2014

Basic Earnings per Share (AED)

25% increase in the past year

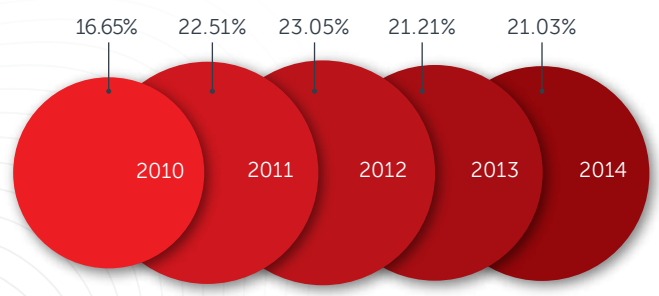
Dividends per Share (AED)

33% increase in the past year



Capital Adequacy Ratio

21.03% in 2014



*Normalised to reflect sale of investment in associate.

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

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

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

Chairman's Message

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

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

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

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

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

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

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

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

ADCB's Priorities

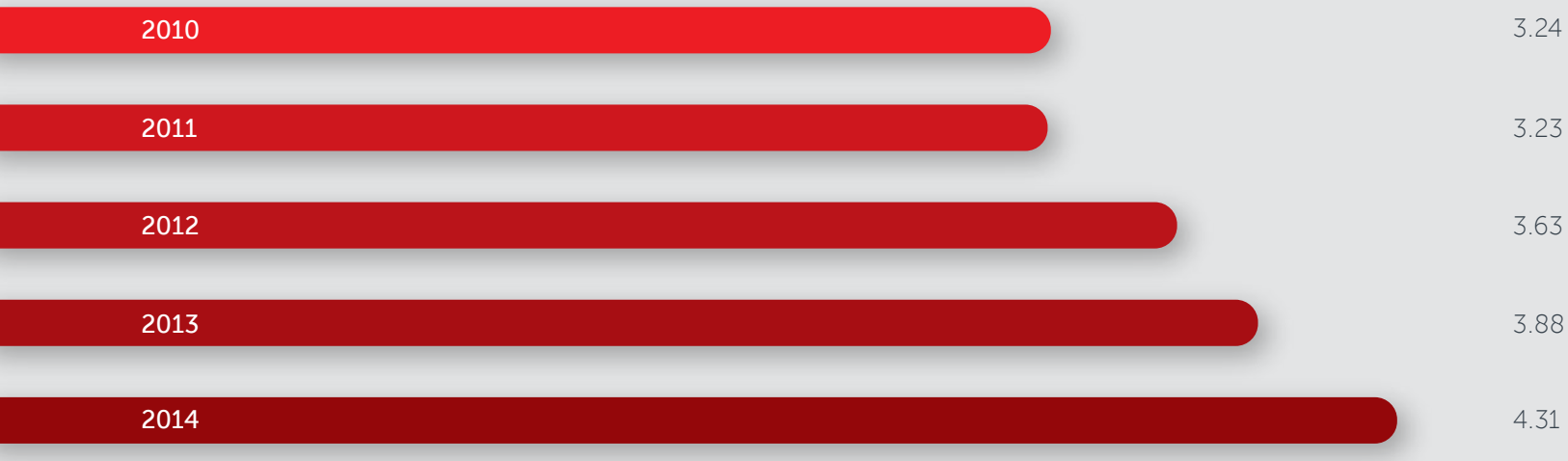
1. Create the most valuable bank in the UAE in terms of total shareholder return.

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

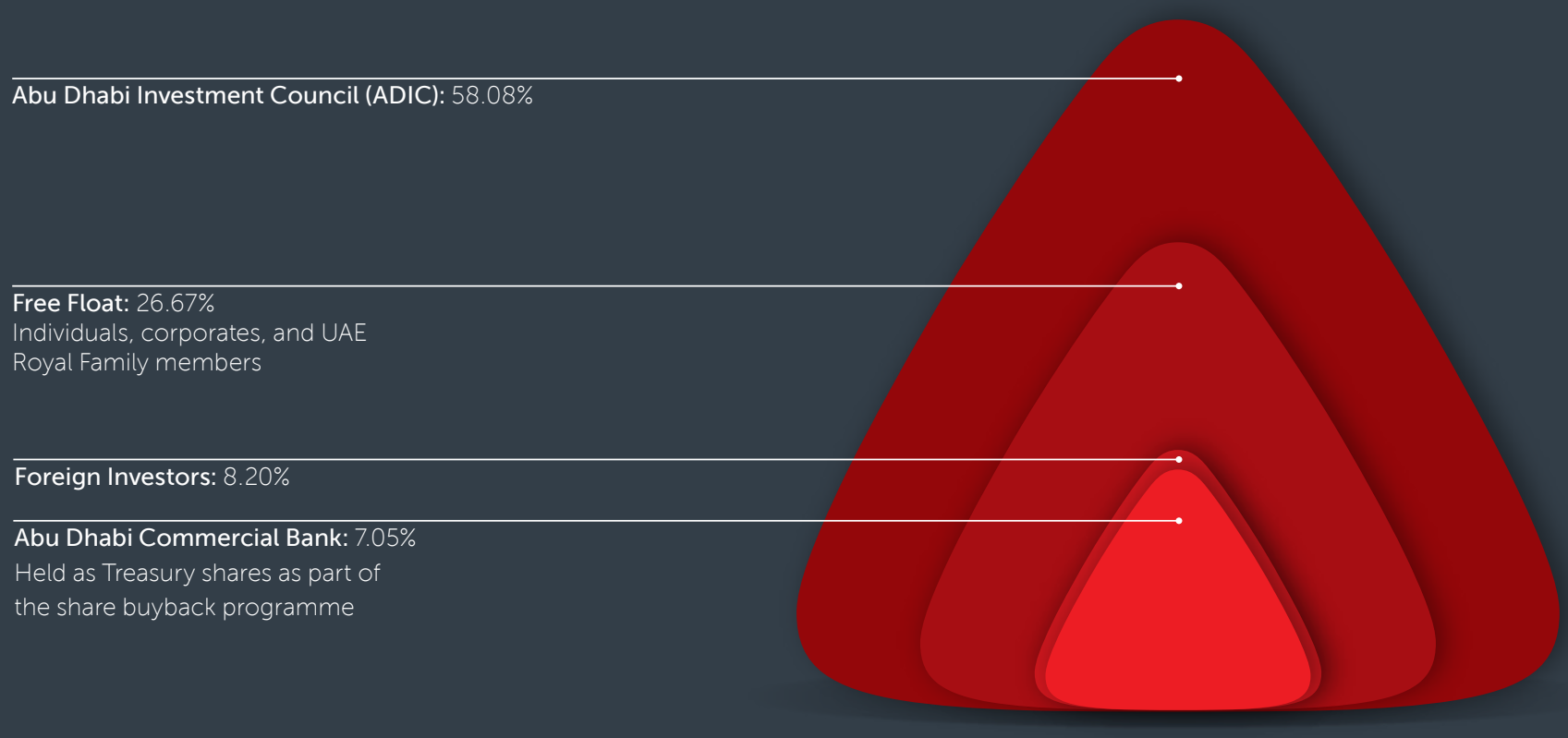
3. Retain our conservative risk stance.

Book Value per Share

(AED)



Shareholding Structure



Dividend Payout Ratio*

50%

of Net Profit

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

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

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

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

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

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

Eissa Mohamed Al Suwaidi
Chairman

*Excluding Treasury shares.

Group CEO's Message

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

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

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

And our strategy is serving you well.

Leading Indicators

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

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

7,529

Total Operating Income (AED MN)

204,019

Total Assets (AED MN)

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

The Right Kind of Growth

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

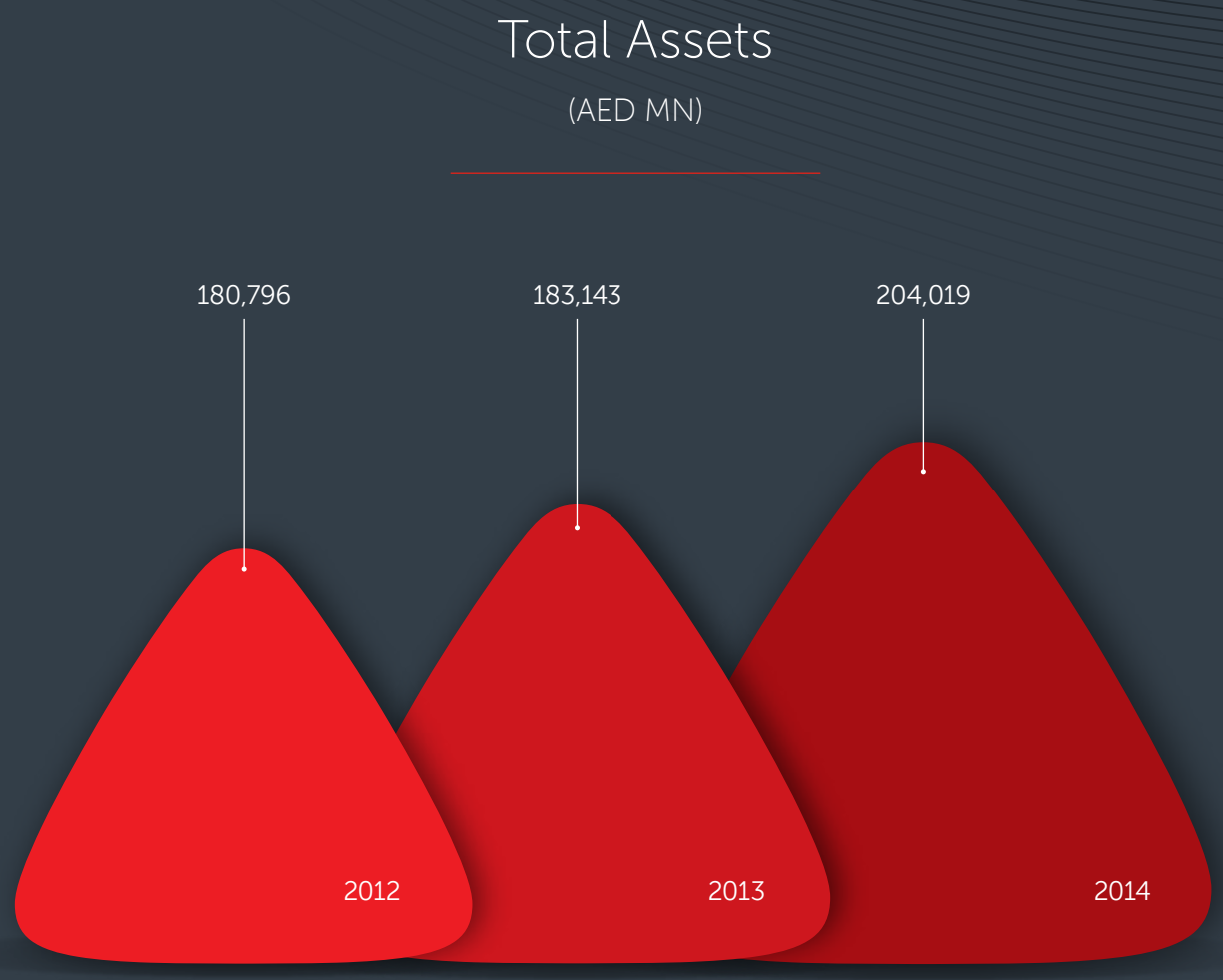
We seek growth with a passion, but only the right kind of growth: the kind that generates sustainable profits. You can see this reflected in our growing, low-cost CASA deposits and operational accounts for both individuals and corporates; our focus on improving customer service for all our customers;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

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

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

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

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



Committed to the UAE

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

This commitment inspired our creation of "Tamooha," a women-only work group designed for Emirati women whose talents and ambitions might otherwise go unexplored. This is the first programme

of its kind in our sector or, for that matter, in any sector in the UAE.

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

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

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

Headwinds

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

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

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

Our Journey Continues

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

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

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

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

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

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

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

Group CFO's Message

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

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

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

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

Meeting Challenges

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

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

Net Loan and Customer Deposit Growth (AED BN)

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

Stable, Strong and Growing

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

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

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

Resiliency

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

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

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

Moving Ahead

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

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

Deepak Khullar
Group Chief Financial Officer

Our Ratings

A/A-1/ Positive

S&P

A+/F1/ Stable

Fitch

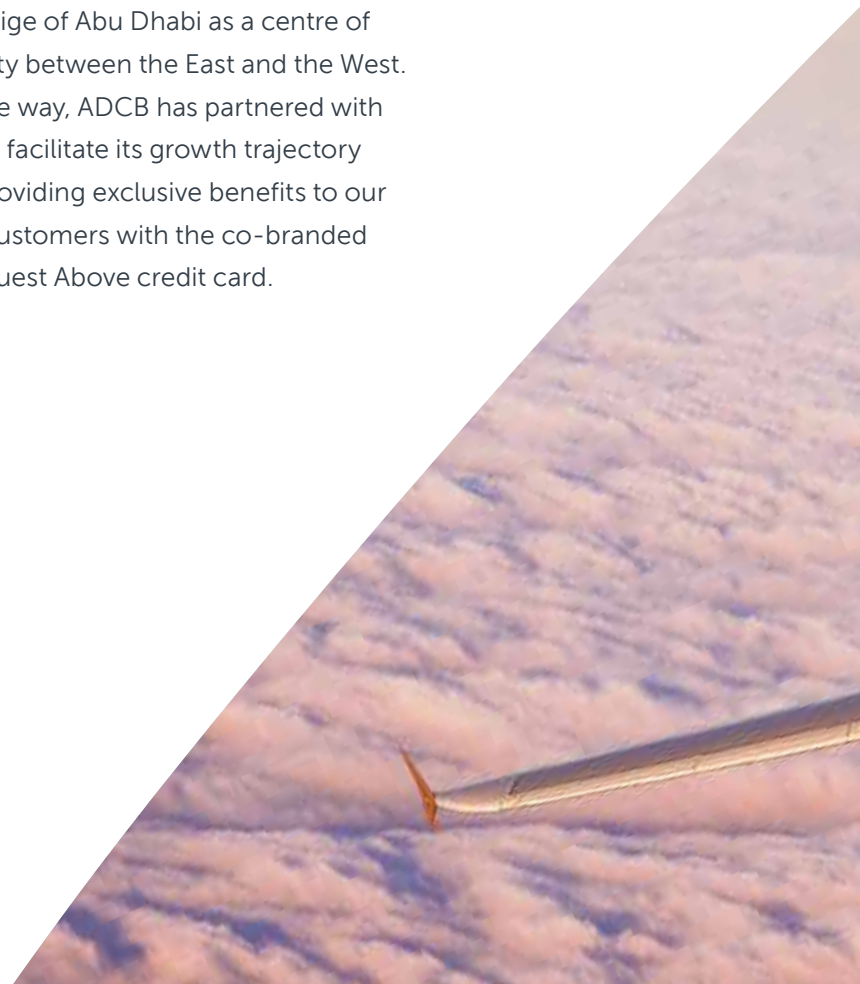
AAA/P1/ Stable

RAM

A Better Way to Soar

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

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




ETIHAD
الاتحاد

90% of gross loans are within the UAE

10% of gross loans are outside of the UAE

STRATEGY

01

Growth through a UAE-centric approach, with controlled internationalisation

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

A Better Way to Grow

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

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

STRATEGY

02

Sustainability through liability growth

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

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

2014: 45%

2013: 39%

2012: 33%

2011: 27%

2010: 24%

A Better Way to Serve

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

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

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


بنك أبوظبي التجاري
ADCB

Towards Service Excellence

2014

1,500

Mystery shopping surveys

18

Service quality forums and customer experience working groups

3,600

Service recoveries following feedback from a fast feedback loop

21

Live fast feedback loops

4,559

Staff trained in service

8

Processes fully re-engineered

92

Studies undertaken on the voice of the customer

11,000+

Staff provided feedback on internal service providers

16

Customer focus groups undertaken

1,000+

Tele-audits undertaken to monitor our service standards

40,000

Customers spoken to for feedback

STRATEGY

03

Maintain a culture of service excellence and efficiency

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

A Better Way to Manage Risk

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

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

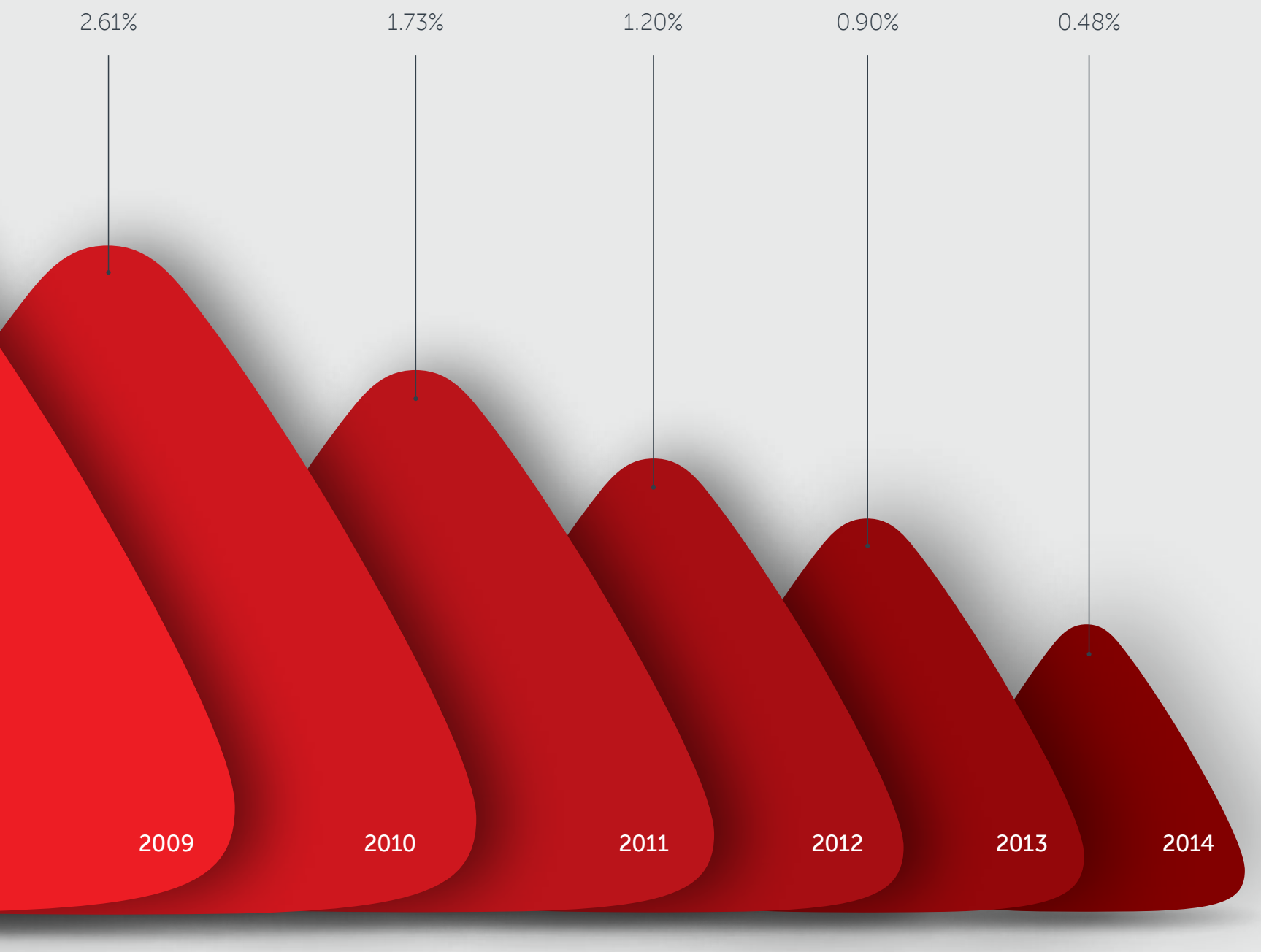
STRATEGY

04

Manage our risk in line with a predefined risk strategy

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

Cost of Risk



A Better Way to Contribute

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

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

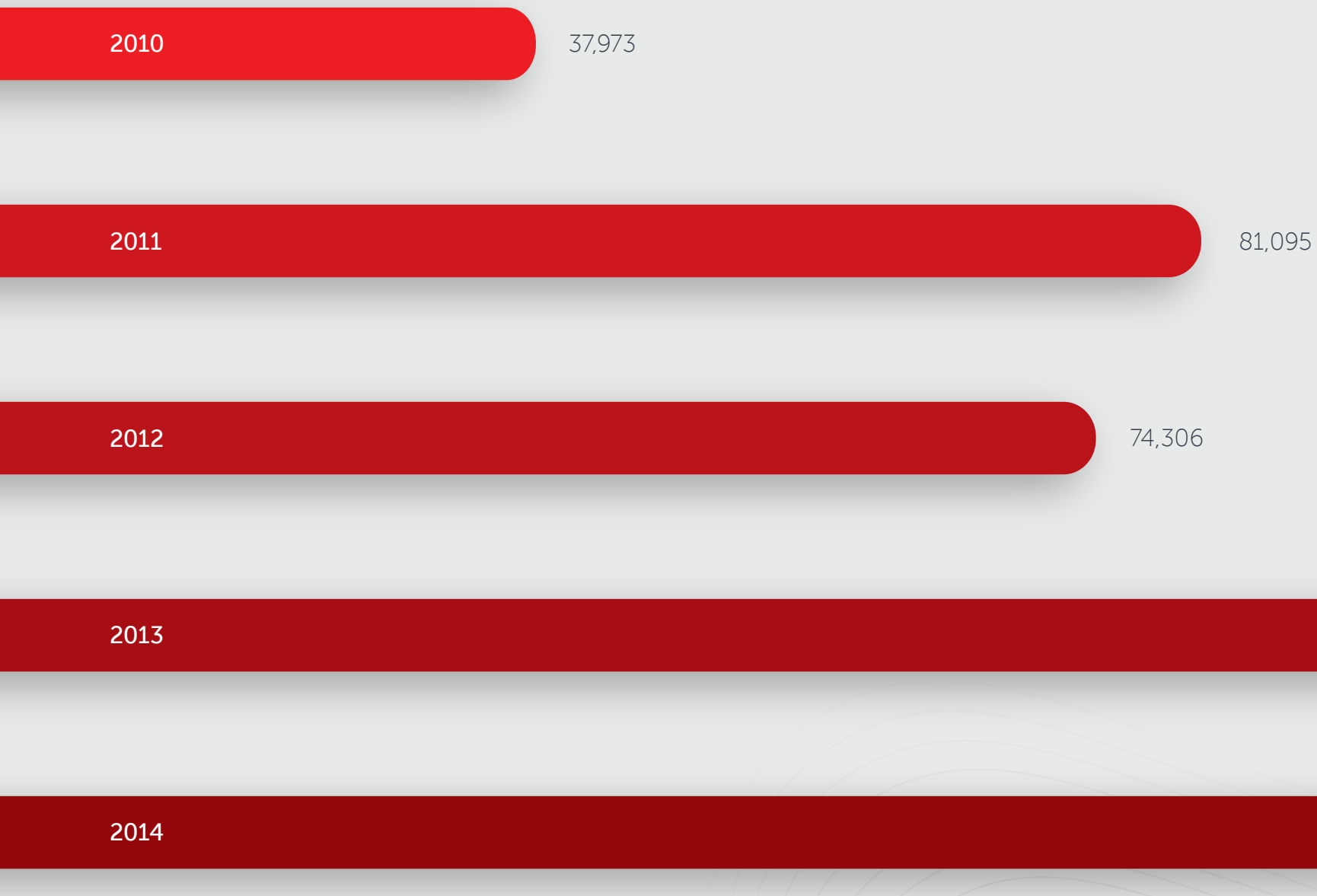
Tamooha has been an outstanding success. The first Tamooha Centre opened in Al Ain, and we intend to expand this innovative initiative into multiple service centres across the UAE.

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

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

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

Training Hours

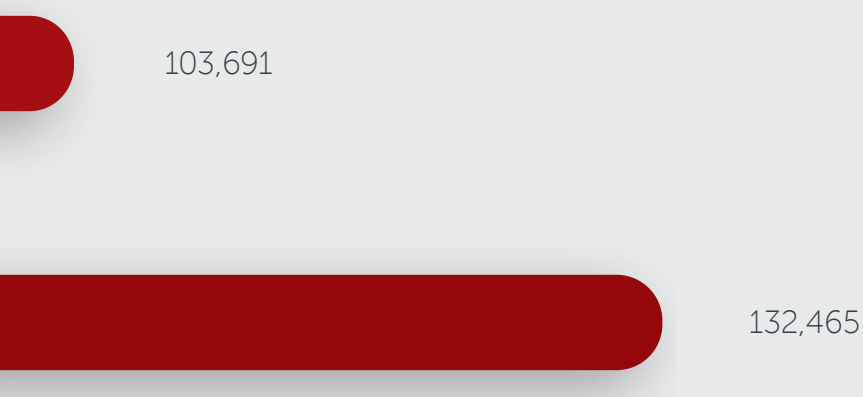


STRATEGY

05

Success through staff

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



01

Growth through a UAE-centric approach, with controlled internationalisation

UAE-Centric

02

Sustainability through liability growth

Sustainable Growth

03

Maintain a culture of service excellence and efficiency

Customer-Centric

04

Manage our risk in line with a predefined risk strategy

Risk-Aware

Strategy

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

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

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

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

Aspirations

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

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

Objectives

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

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

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

Measures That Matter

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

8%

Total Shareholder Return

18%

Return on Equity

74 FILS

Basic Earnings per Share

34%

Cost to Income Ratio

Total Shareholder Return (TSR)

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

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

Return on Equity (ROE)

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

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

Basic Earnings per Share (EPS)

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

Cost to Income Ratio

Calculated by dividing operating expenses by operating income.

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

Net Promoter Score (NPS)

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

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

Awards & Recognition

"Hawkamah Bank Corporate Governance Award"

Institute for Corporate Governance

"Procurement Team of the Year — Middle East"

Chartered Institute of Purchasing and Supply Chain (CIPS)

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

The Middle East HR Excellence Awards

"Best Trade Finance Offering"

The *Banker Middle East* Product Awards 2014

"Best New SME Product"

The *Banker Middle East* Product Awards 2014

"Best Deposit Product Business in Middle East"

The Asian Banker Magazine

"Best Domestic Cash Management Bank in the UAE"

The Asian Banker Magazine

"Best Retail Bank in the UAE"

The Asian Banker Awards

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

Trade Finance Magazine

"Best Overall Bank for Cash Management"

Global Finance Magazine

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

Trade Finance Magazine

"Best Trade Finance Bank in the UAE"

Global Finance Magazine

"Best Corporate Governance in UAE"

World Finance Magazine

"Best Corporate Bank" and "Best Transaction Bank"

The *Banker Middle East* Industry Awards

"UAE Domestic Cash Management Bank of the Year"

Asian Banking & Finance Magazine

"Best Cash Management Bank in the UAE"

Euromoney Award

"Best Islamic Banking Window in UAE"

The *International Finance* Magazine

"Best SME Customer Service"

The *Banker Middle East* Product Awards 2014

Business Review

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

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

Consumer Banking Group

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

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

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

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

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

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

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

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

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

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

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

A Better Way to ID

First-to-market with biometric voice recognition

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

A Better Way to Protect Success

Capitalising on the granularity of the SME segment

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

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

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

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

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

Wholesale Banking Group

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

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

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

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

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

A Better Way to Bank

SimplyLife makes basic banking easy, fast and friendly

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

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

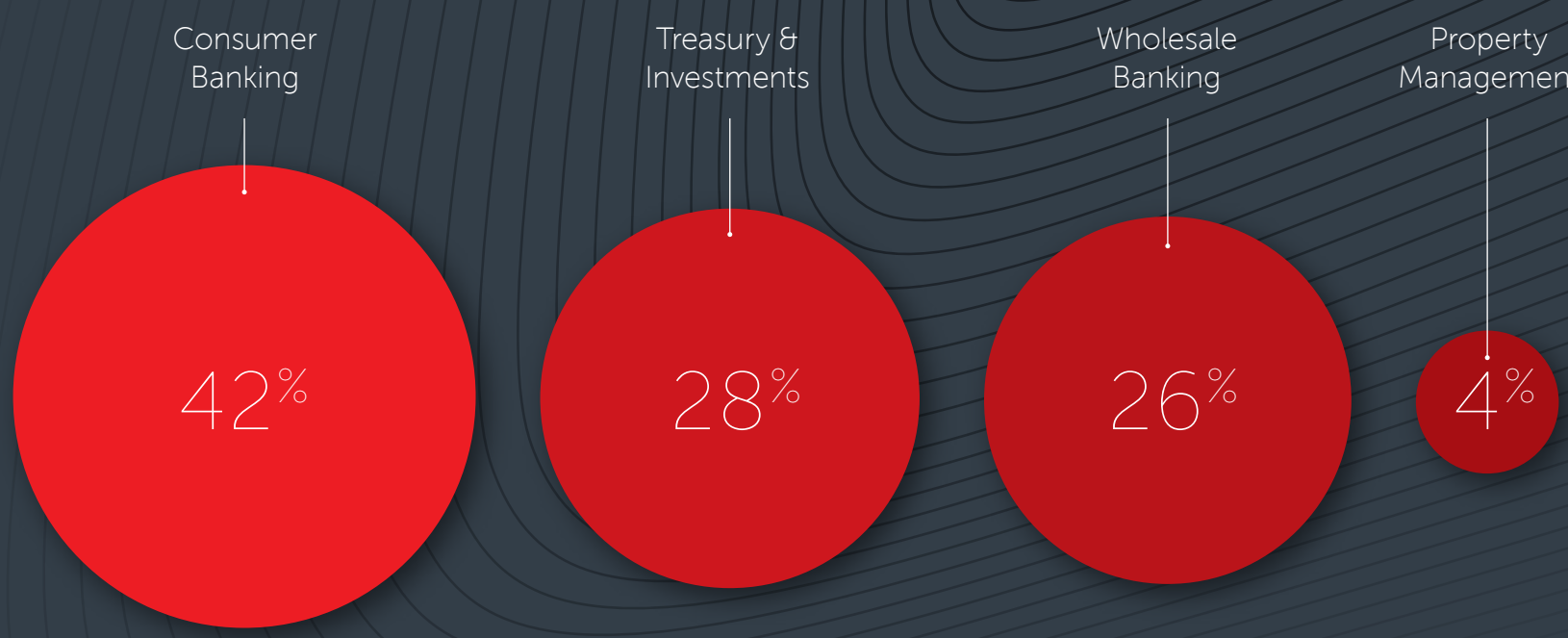
WBG made some significant changes in 2014. Changes in structure have allowed increased senior coverage in our core wholesale client markets across the UAE. Significant customer-service-model improvements across the business are leading to record levels of customer satisfaction across the franchise, as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

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

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

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

Percentage Contribution to Operating Income



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

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

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

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

Treasury & Investments Group

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

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

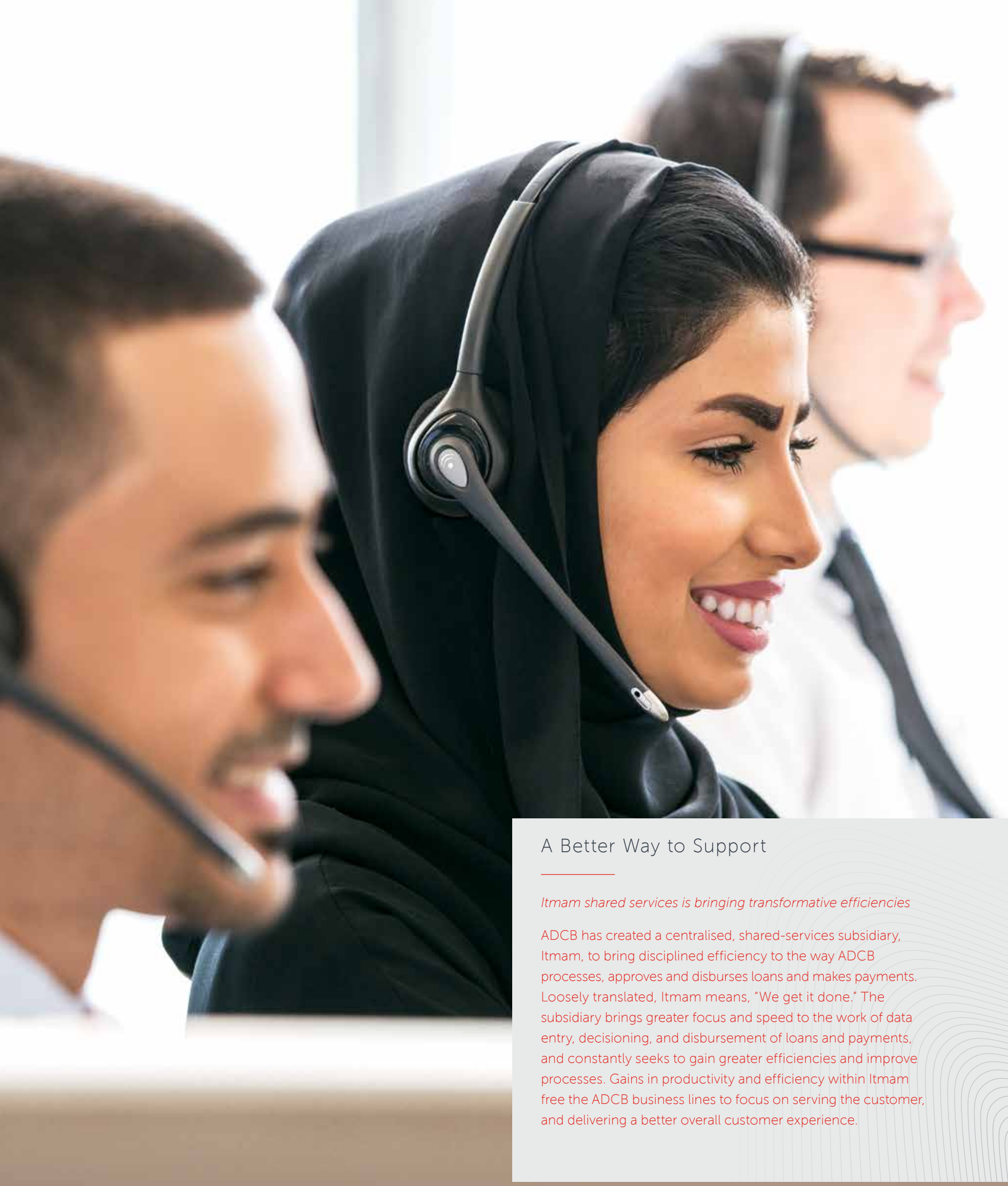
2014 was an active year for ADCB in the capital markets, with issuances of circa AED 7 bn, leveraging the capital markets three times in one calendar year. ADCB did its first issuance in the Australian dollar market in 2014 with the intent of diversifying our investor base. ADCB opened the US dollar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

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

A Better Way to Secure Stability

Dubai R.E. escrow business delivering solid returns

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



A Better Way to Support

Itmam shared services is bringing transformative efficiencies

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

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

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

Group Business Services

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

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

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

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

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

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

Property Management

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

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

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

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

Human Resources

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Board of Directors Profiles

Eissa Mohamed Al Suwaidi
Chairman

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

Bachelor of Economics
(Northeastern University, USA)

ADCB Committee Memberships:
Chairman – Risk & Credit Committee

Member – Nomination, Compensation & HR Committee

External appointments:
Chairman – Emirates Telecommunications Corporation (Etisalat)

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

Executive Director – Abu Dhabi Investment Council

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

Mohamed Sultan Ghannoum Al Hameli
Vice Chairman

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

Bachelor of Finance
(Boston University, USA)

General Manager Program
(Harvard Business School)

Chartered Financial Analyst
(CFA Institute)

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

Member – Risk & Credit Committee

External appointments:
Director General – Abu Dhabi Finance Department

Chairman – National Health Insurance Company (DAMAN)

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

Ala'a Eraiqat
Executive Director, Group Chief Executive Officer

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

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

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

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

Mohamed Darwish Al Khoori
Director

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

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

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

General Manager Program
(Harvard Business School)

ADCB Committee Memberships:
Chairman – Audit & Compliance Committee

External appointments:
Chairman – Oman & Emirates Investment Holding Company

Member – The Financial Corporation (FINCORP) Board

Member – The Financial Corporation (FINCORP) – Audit Committee

Board Member – Abu Dhabi Global Market

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

Member – ADIA's Investment, Alpha and Management Committees

Abdulla Khalil Al Mutawa
Director

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

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

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

Member – Audit & Compliance Committee

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

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

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

Former Director – Warid Telecom (Pvt) Limited

Khaled H Al Khoori
Director

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

Master of Civil Engineering
(Northeastern University, USA)

Bachelor of Civil Engineering
(Northeastern University, USA)

ADCB Committee Memberships:
Member – Risk & Credit Committee

External appointments:
Chairman – Orient House for Development & Construction

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

Mohamed Ali Al Dhaheri
Director

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

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

Bachelor of Business Administration (International University of America)

ADCB Committee Memberships:
Chairman – Corporate Governance Committee

Member – Nomination, Compensation & HR Committee

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

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

Chairman – Al Hilal Takaful's Investment Committee

Member – Al Hilal Takaful's Audit Committee

Sheikh Sultan bin Suroor Al Dhahiri
Director

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

Master of Business Administration (Abertay Dundee University, UK)

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

ADCB Committee Memberships:
Member – Corporate Governance Committee

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

Board Member – National Corporation for Tourism & Hotels

Khalid Deemas Al Suwaidi
Director

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

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

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

ADCB Committee Memberships:
Member – Corporate Governance Committee

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

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

Chief Executive Officer – Das Holding

Board Member – Citiscape Group Company

Aysha Al Hallami
Director

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

Chartered Financial Analyst, CFA Institute

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

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

ADCB Committee Memberships:
Member – Audit & Compliance Committee

Member – Risk & Credit Committee

Omar Liaqat
Director

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

Chartered Accountant (Fellow) from England & Wales Institute

ADCB Committee Memberships:
Member – Audit & Compliance Committee

Member – Corporate Governance Committee

External appointments:
Chief Operating Officer – Abu Dhabi Investment Council

Member – Audit Committee – Abu Dhabi National Insurance Company

Member – Audit Committee – Abu Dhabi Fund for Development

Sir Gerry Grimstone
Adviser

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

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

External appointments:
Chairman – Standard Life

Chairman – TheCityUK

Lead Non-Executive Director – UK Ministry of Defence

Independent Non-Executive Director – Deloitte LLP

Board Member – UK Government's Shareholder Executive

Executive Management Profiles

(left to right)

Abdirizak Mohamed
Group Chief Internal Auditor

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

Arup Mukhopadhyay
Group Head of Consumer Banking

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

Simon Copleston
Group General Counsel and Board Secretary

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

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

Ali Darwish
Group Head of Human Resources

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

Kevin Taylor
Group Treasurer

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

Ala'a Eraiqat
Group Chief Executive Officer, Executive Director

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

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

Jerry Möllenkramer
Group Chief Operating Officer

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

Deepak Khullar
Group Chief Financial Officer

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

Colin Fraser
Group Head of Wholesale Banking

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

Abdulla Khalifa Al Suwaidi
Group Head of Government Relations

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

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

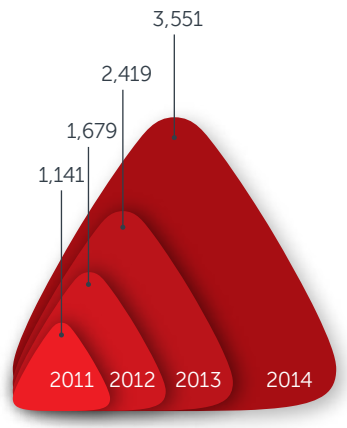
Kishore Rao Naimpally
Group Chief Risk Officer

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

Sustainability

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

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



SME Gross Loans (AED MN)

Our Contribution to UAE Economic Growth

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

Small and Medium-Size Enterprises (SMEs)

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

Islamic Finance

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

Trade Finance

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

Our progress in managing sustainability to date

2007–2010

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

2011

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

2012

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

2013

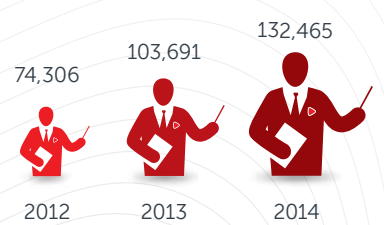
- Published 2012 Sustainability Report (GRI G3.1, Level B, GRI checked)
- Joined Abu Dhabi Sustainability Group (ADSG)
- Introduced ESG criteria into supplier selection process
- Ranked 4th in Standard & Poor's/Hawkamah Pan-Arab Environmental Social Governance (ESG) Index
- Created formal full-time position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

2014

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

Letter of credit and guarantees (AED MN)

Gross Islamic financing assets (AED MN)



Total number of training hours

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

How We Do Business Responsibly

Governance

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

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

Ethical Banking

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

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

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

Investing in Our Communities

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

Financial Contributions

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

the Al Bait Mutwahid Society, the Emirates Foundation, Red Crescent and the Emirates Wildlife Society-World Wildlife Fund.

Total community contributions

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

ADCB sponsorships in 2014 totalled over AED 10 mn

Breast Cancer Awareness "Pink Month"

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

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

Promoting UAE Culture

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

ADCB's sponsorships in 2014 included:

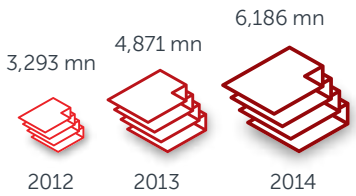
- Emirates Foundation, which delivers public-private–funded initiatives to improve the welfare of UAE youth
- Sheikh Zayed Heritage Festival, which pays homage to the late Sheikh Zayed bin Sultan Al Nahyan, the founder of the UAE, and honours the rulers of the seven Emirates. Sponsorships in 2014 totalled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

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

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

Emirati Millionaire Savings Account Book (AED MN)

Zero incidents of human rights violations in 2014



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

Our Products and Services

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

Health & Safety

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

Empowering Our People

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

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

Human Rights

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

Managing Our Environmental Impact

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

Our Electricity Consumption

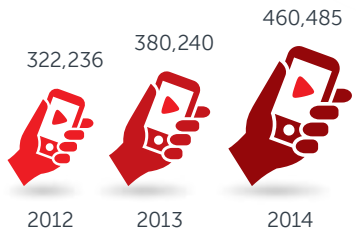
Although our impact as a financial services company on energy consumption is not material, we recognise the importance of measuring our impacts in order to more effectively manage them and proactively mitigate climate change.

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

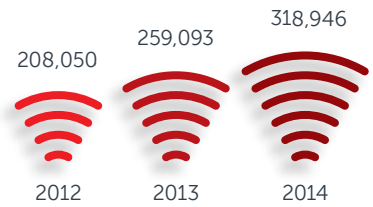
Waste Management

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

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



460,485 SMS banking subscribers in 2014



318,946 Internet banking subscribers in 2014

97% of sourcing is from local suppliers

Initiatives to Reduce Our Impacts

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

Procurement and Sustainability

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

Raising Awareness

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

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

Corporate Governance Report

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

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

Reporting Principles

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

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

The Board

The Board's Agenda in 2014

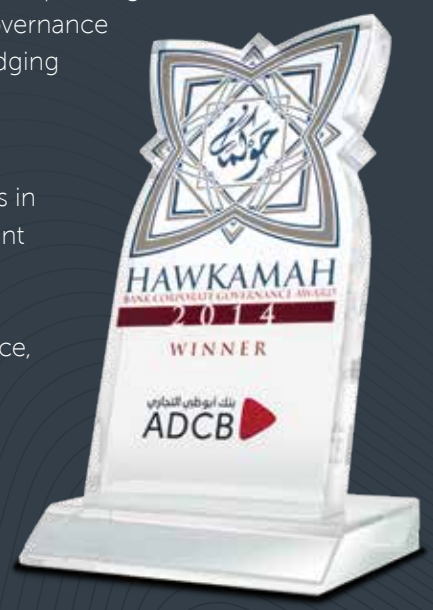
The Bank's Board has adopted a rolling agenda. The rolling agenda ensures that certain big-picture items, including long-term planning, strategy, operational plans, succession planning, performance

A Better Way to Govern

External Recognition — Hawkamah Corporate Governance Award

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

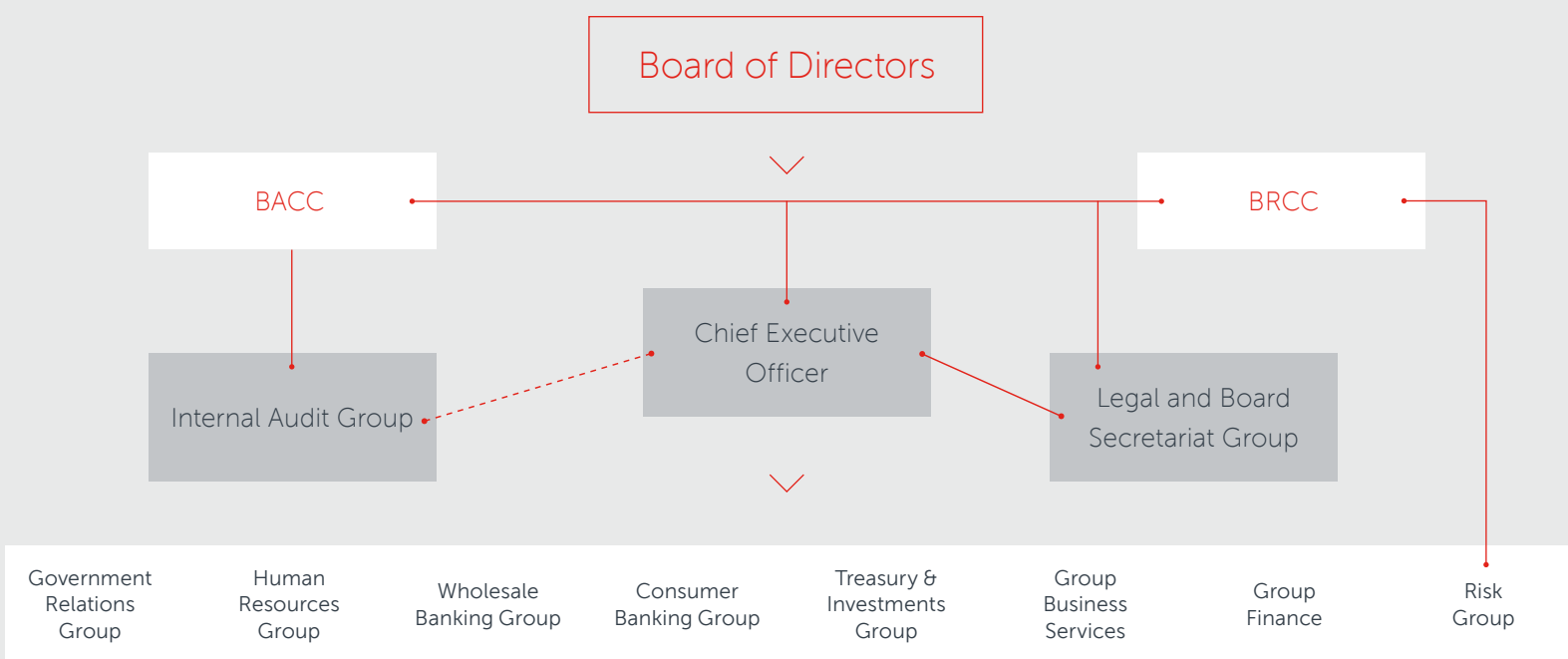
Hawkamah, the Institute for Corporate Governance, promotes corporate-sector reform across the Middle East, North Africa and South Asia, assisting organisations and sectors in developing and implementing sustainable corporate governance strategies. Winners of the Hawkamah Bank Corporate Governance Award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



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

Corporate Governance Structure

Structure and Composition



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

In 2014, the Board focused on the following:

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

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

Strategy Setting

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

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

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

Board Oversight of Risk Management

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

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

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

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

Structure and Composition

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

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

Performance Evaluations

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

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

Board Membership and Attendance

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

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

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

Performance Evaluations *(continued)*

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

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

Appointment, Retirement and Re-Election

According to the Bank's articles of association:

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

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

The Board's Adviser

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

Directors' Independence

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

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

Induction and Professional Development

In 2014, no new Directors were appointed to the Board. In the event that any new Directors are appointed, they are given formal induction and orientation regarding financial matters and business operations. In addition, the management will facilitate their visits to the Bank's departments and key branches to get familiar with the Bank's operations. The management would also organise a

series of induction meetings with key executive management members. Please see *http://www.adcb.com/about/corpgovernance/overview.asp* for additional information concerning the Bank's induction programme for newly appointed Directors.

Matters Reserved to the Board and Information Dissemination

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

Meetings

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

Board Committees

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

Other Practices and Policies

Conflicts of Interest

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

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

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

Management Committees

The management has established the following management committees:

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

Dividend Policy

The Bank has not adopted a formal dividend policy.

Internal Controls

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

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

Audit Arrangements

The external auditors were initially appointed at the 2011 Annual General Meeting (AGM); at the 2012 and 2013 Annual General Assembly, PricewaterhouseCoopers (PwC) were re-appointed as the external auditors of the Bank on the recommendation of the Board of Directors. Bank policy restricts the firm's tenure to no more than seven consecutive years. Bank policy also restricts the tenure of the individual audit partner within the firm to no more than five consecutive years, unless exceptionally approved by the Board Audit & Compliance Committee[1]. The Bank's external auditor is paid on a fixed annual fee basis, as approved by the shareholders at the AGM. In 2014, fees paid to external auditors for audit work conducted during the 2014 year totalled AED 1,496,080 for the audit of the Bank's UAE business and its subsidiaries. A further AED 815,837 was paid to PwC for non-audit work primarily related to certification work undertaken in relation to the Bank's capital market issuances. All non-audit work performed by PwC was pre-approved by the Board's Audit & Compliance Committee.

Internal Audits, Regulation and Supervision

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

The Bank's Approach to Disclosure

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

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

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

Diversity

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

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

Articles of Association

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

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

Reports of the Board Committee Chairmen

01

Audit & Compliance Committee

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

Statement from the Chairman of the Audit & Compliance Committee

Dear Shareholders,

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

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

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

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

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

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

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

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

Looking at 2015

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

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

02

Corporate Governance Committee

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

Statement from the Chairman of the Corporate Governance Committee

Dear Shareholders,

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

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

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

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

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

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

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

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

Looking at 2015

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

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

Reports of the Board Committee Chairmen

03

Nomination, Compensation & HR Committee

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

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

Dear Shareholders,

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

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

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

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

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

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

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

Looking at 2015

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

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

04

Risk & Credit Committee

Composition as at 31 December 2014:
Eissa Mohamed Al Suwaidi (Chairman), Mohamed Sultan Ghannoum Al Hameli, Khaled H Al Khoori, Aysha Al Hallami
Secretary: Rami Raslan

Statement from the Chairman of the Risk & Credit Committee

Dear Shareholders,

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

The Committee held 35 meetings in 2014. The Committee:

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

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

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

Looking at 2015

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

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

Directors' Shareholdings as at 31 December 2014

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

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

Board Committees' Fees

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

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

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

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

Remuneration policy

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

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

Board Remuneration

Board Member remuneration paid during 2014

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

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

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

Other benefits

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

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

Remuneration & Reward at ADCB

Guiding Principles

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

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

Total Reward — Key Components

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

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

ADCB's Bank-Wide Variable Pay Framework

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

ADCB's Variable Pay Framework & Governance — Key Facts

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

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

Islamic Banking Governance

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

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

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

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

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

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

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

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

Risk Management

Risk Performance Overview 2014

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

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

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

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

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

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

Risk Governance

Risk Management

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

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

Approach to Risk Management

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

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

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

Risk Culture

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

Three Lines of Defence

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

01

First Line of Defence

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

Business Units

- Treasury
- Wholesale Banking
- Consumer Banking
- Property Management

02

Second Line of Defence

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

Risk Management

- Credit
- Risk
- Compliance

03

Third Line of Defence

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

Independent Assurance

- Internal Audit
- External Audit

Governance Structure

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

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

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

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

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

and policies are cascaded down from the Board to the appropriate business units.

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

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

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

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

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

Business Model

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

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

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

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

Emerging Risk Scenarios

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

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

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

Stress Testing

Overview

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

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

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

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

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

Portfolio-based stress tests

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

Stress-Testing Methodology

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

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

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

Liquidity Risk

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

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

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

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

Market Risk

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

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

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

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

Risk Appetite

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

Risk-Appetite Principles and Key Objectives

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

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

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

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

Risk Appetite Framework

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

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

Divisional Risk-Appetite Statement

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

Principal Risks Affecting ADCB and Risk Coverage

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

Credit Risk

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

Market Risk

Definition	Market risk is the risk that the Bank's income and/or valuation of financial instruments will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, commodities prices and options volatilities.
How we fared in 2014 and our risk-management process for this specific risk	

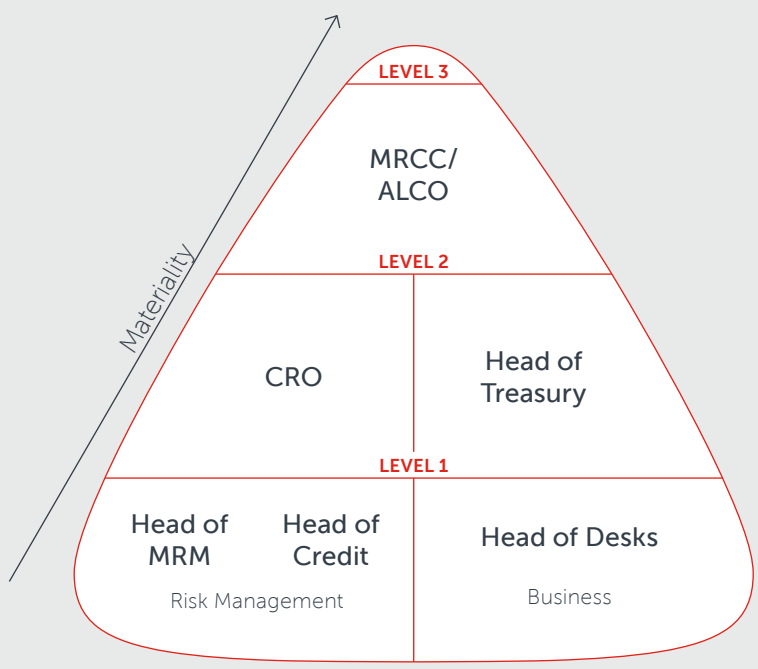
How did we fare in 2014?

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

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

ADCB's risk management for this specific risk:

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



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

Liquidity and Funding Risk

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

Capital Risk

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

Operational Risk

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

Regulatory Risk

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

Information Security Risk

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

Reputational Risk

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

Capital Risk Management

Overview

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

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

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

Our Approach to Capital Risk Management

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

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

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

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

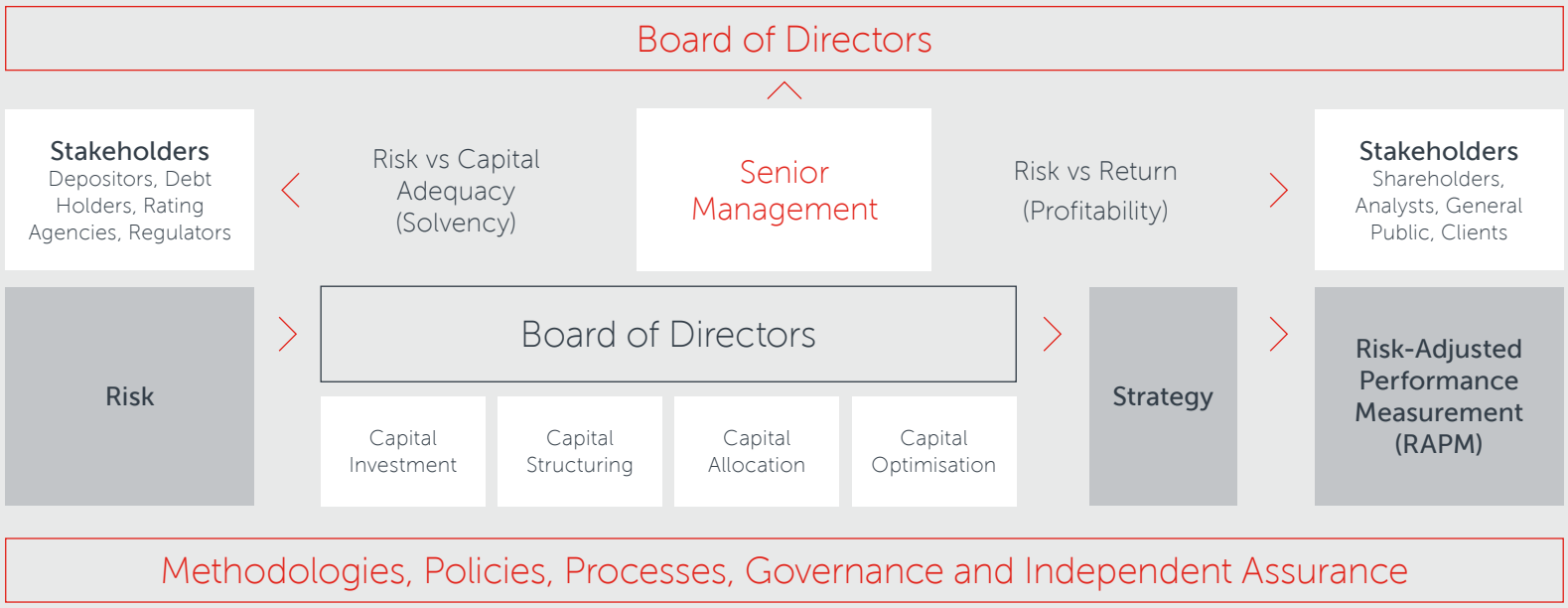
Operational risk: We use the standardised approach for computing capital requirement for operational risk.

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

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

Capital Planning and Budgeting Process

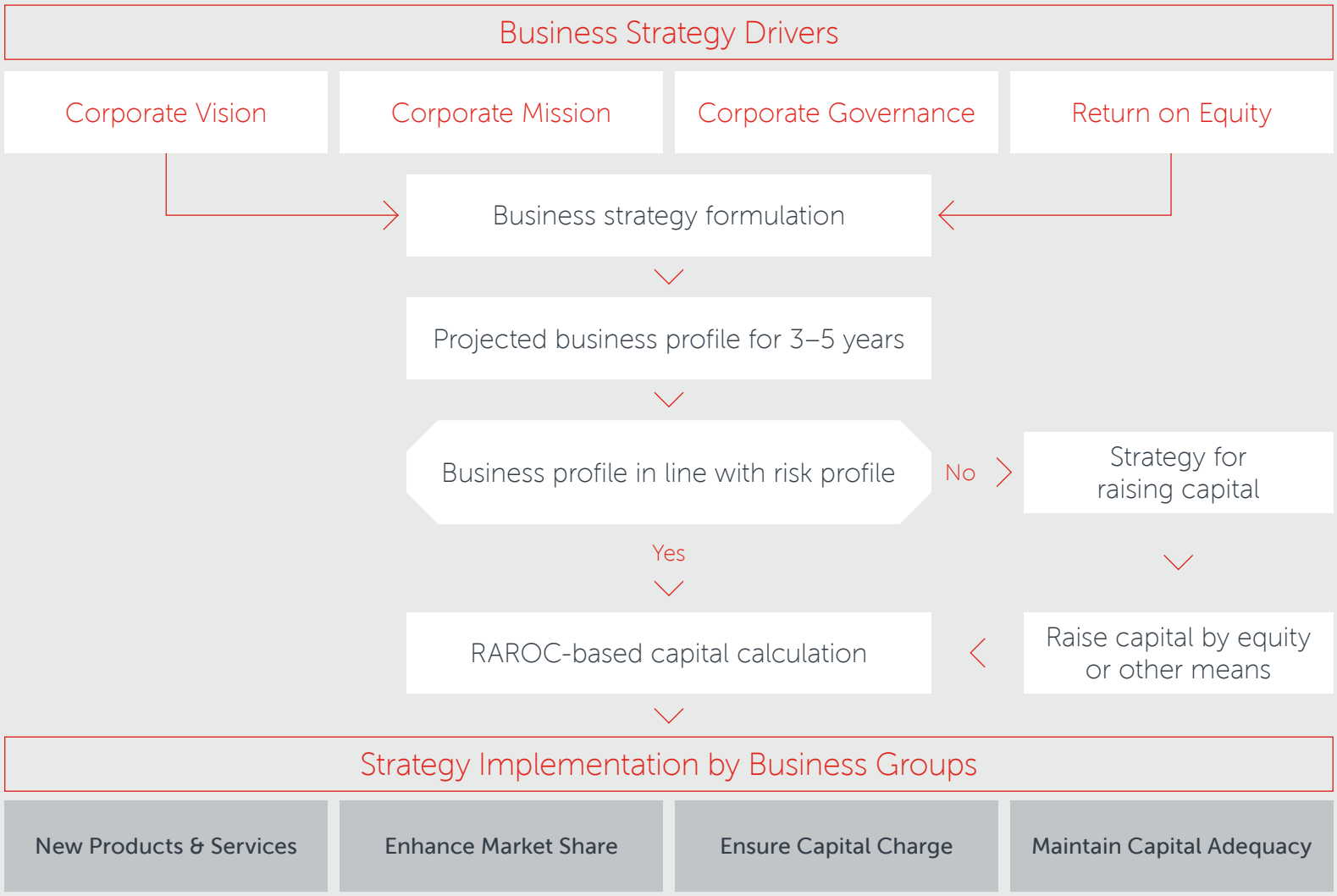
Regulators, in view of the systemic risk that a bank failure carries, the losses it can cause to depositors and the consequent cost of bailouts by the government, rigorously regulate the capital structure of banks. The Basel II Accord focuses on risk management and links the business profile of a bank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



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

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

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



Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital needed to support a particular operation or activity from falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance functions and is subject to review by the ALCO as appropriate.

Capital Position at 31 December 2014

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

Regulatory Developments

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

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

Key Highlights of Basel III Requirements

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

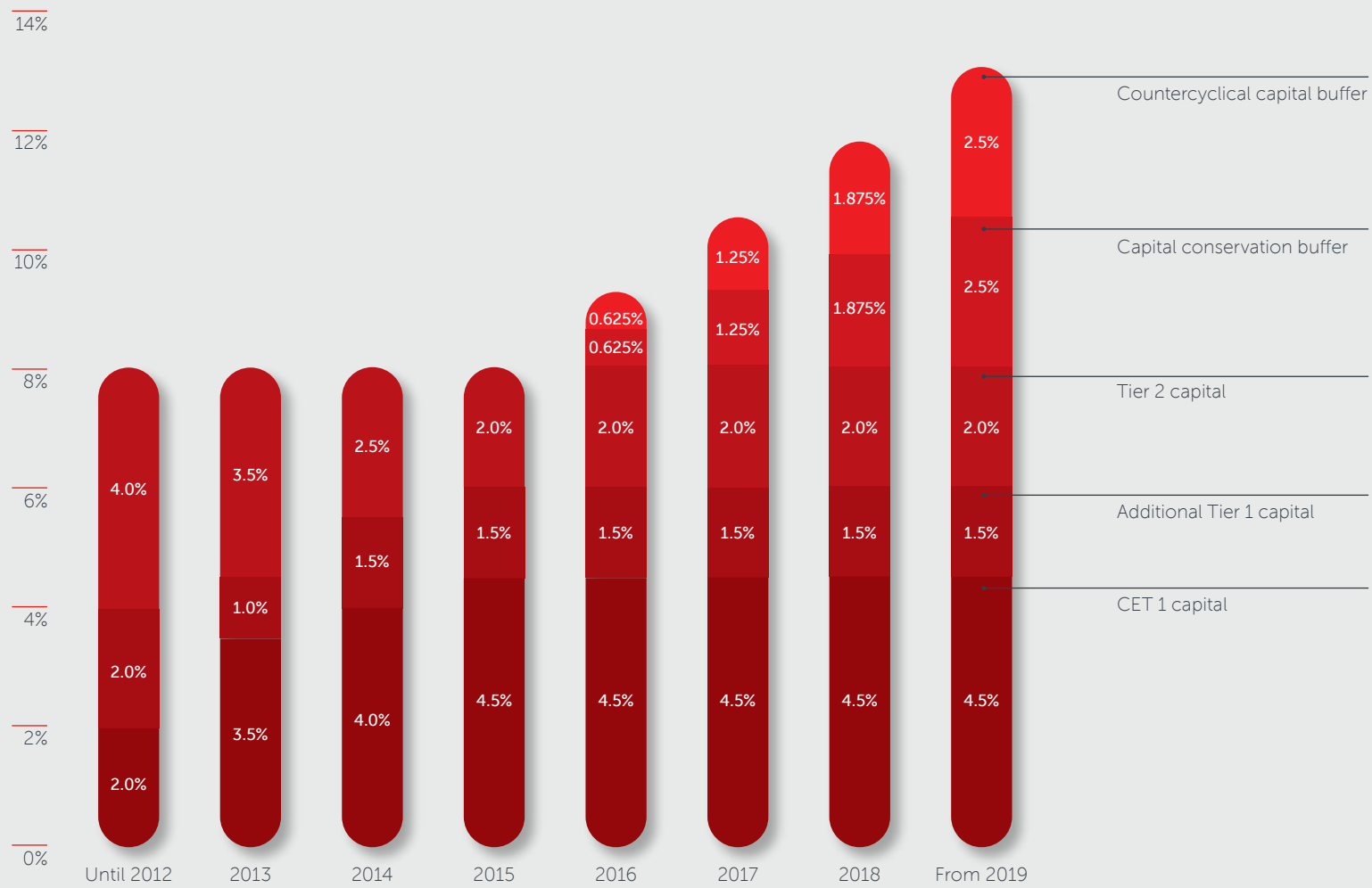
Future Capital Requirements

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

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

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

Basel III Capital Requirements Evolution



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

Leverage Ratio

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

Liquidity Coverage Ratio

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

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

بنك أبوظبي التجاري

ADCB