Abu Dhabi Commercial Bank, India Branches

Basel III: Pillar III Disclosures September 30, 2014

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I. DF-1 Scope of Application

Qualitative Disclosure

a. The name of the top bank in the group, to which these regulations apply - Abu Dhabi Commercial Bank (ADCB India).
   Abu Dhabi Commercial Bank India Branches (ADCB India) is a branch of two branches (Mumbai and Bangalore), of Abu Dhabi Commercial Bank (ADCB), a Company with limited liability incorporated in Abu Dhabi, United Arab Emirates.

b. Basis of Consolidation for accounting and regulatory purposes: Not Applicable

Quantitative Disclosure

c. The aggregate amount of Capital deficiencies – NIL

d. The aggregate amounts of Banks' total interests in Insurance entities – NIL

1. DF-2 Capital Structure

1.1. Qualitative Disclosures

Capital instruments eligible for inclusion in Tier 1 includes local capital funds, capital reserves, statutory reserves and remittable surplus retained in India. Local capital funds comprise the amount brought in India by way of initial capital together with subsequent infusion of capital increased by revenue and other reserves accrued over the years.

1.2. Quantitative Disclosures

1.2.1. Summary of Capital Funds

(Rs.000's)

Summary of Capital Funds			
Sr. No.	**Components of Tier I Capital**	**Bank's Amount**	**Eligible Amount**
A.	Common Equity Tier I		
1	Paid up share capital	2,170,187	2,170,187
2	Statutory Reserves	412,359	412,359
3	Capital Reserves representing surplus arising out of sale proceeds of assets	14,711	14,711
4	Remittable Surplus retained in Indian books (not repatriable)	648,183	648,183
Common Equity Tier 1 Capital before Regulatory Adjustments		3,245,440	3,245,440
5	Less: Deductions Deferred Tax Assets.	(65,779)	(65,779)
Total Tier I Capital		**3,179,661**	**3,179,661**
Sr. No.	**Components of Tier II Capital**		
1	General Provisions and loss reserves	83,538	83,538
Total Tier II Capital			83,538
Total			**3,263,199**

2. DF-3 Capital Adequacy

2.1. Qualitative Disclosures

The role of capital is to act as a buffer against future un-identified losses, thereby protecting deposits and other creditors. The losses include both expected and unexpected losses. Expected loss is incurred during the normal operations of the Bank and the unexpected loss can occur from any of the risk sources. The amount of capital the Bank would hold, therefore, depends on the loss distribution (whether arising from credit, market or operational or any other kinds of risk), its risk appetite, as well as the risk bearing capacity.

ADCB India maintains more than adequate capital levels considering its business and operational risk profile and takes care of unforeseen contingencies. The capital planning process of the bank ensures that the capital available for the Bank is at all times in line with the risk appetite of the Bank.

ADCBI's ICAAP Management framework, aims to ensure that capital supports business growth. The ICAAP also stipulates that the Bank's capital should exceed the minimum statutory requirement by 6%.

One of the aims of the ICAAP is to ensure that management adequately identifies and measures the Bank's risks. The process also checks that management takes steps to ensure that the Bank maintains sufficient internal capital relative to its risk profile and that it applies and develops proper risk management systems. Pursuant to regulatory requirements, Reserve Bank of India (RBI) will review and assess the application of ICAAP and the quality of the in-house management procedures of which ICAAP forms an integral part.

2.2. Quantitative Disclosures

2.2.1. Capital Requirements for Credit Risk, Market Risk and Operational Risk

(Rs.000's)

Capital Adequacy	
Credit Risk	
Total Portfolio subject to credit risk	33,039,267
Capital Requirement under standardised approach	11,105,000
Market Risk	
(i) Interest rate risk	33,411
(ii) Equity position risk	-
(iii) Foreign exchange risk	150,000
Capital Requirement : Total (i+ii+iii)	183,411
Operational Risk	
Capital Requirement under Basic Indicator Approach	838,444
Total Risk Weighted Assets	**12,126,855**

2.2.2. Capital Adequacy Ratio (CRAR)

CRAR	**26.91%**
CRAR – Tier 1 Capital (%)	**26.22%**

3. DF-4 Credit Risk: General Disclosures

3.1. Qualitative Disclosures

3.1.1.Overview of policies and procedures

Credit risk reflects the risk of losses because one or more counterparties fail to meet all or part of their obligations towards the Group. Credit risk includes concentration, settlement and underwriting risk.

The Credit Risk Management Framework is summarised as under:

Identification	The Bank endeavours to identify all material risks that may affect it. This is a dynamic process that favours management considerations in the development of new products.
Policies	The Credit policy is designed to be an essential management tool providing readily accessible assistance and support to corporate, trade finance and credit professionals as well as senior management and other interested users.
Measuring and Handling Risk	To ensure measurement gives a fair presentation of underlying portfolios and transactions, continuous monitoring of various models and methods is carried out.
Parameter Applications	In order to capitalise on the Bank's risk appetite, the Bank applies risk based data about customers, industries, countries, etc in the day-to-day handling of customer transactions.
Controls	The Bank has established an independent control environment to monitor and enforce approved policies and limits.
Reporting	The Bank applies a systematic risk reporting at all levels of the organisation and openness in the reporting of risk factors to the Bank's stakeholders.

*The **key objectives of Bank's Credit Policy** are as follows:*

Bank's Loan Policy is devised for regulating the Bank's resources towards remunerative means, for directed national priorities and also for achieving uniformity in the lending activity bank wide. This policy is meant to cover the macro and micro issues ***at the broad policy level.*** Credit deployment is required to be implemented in conjunction with various regulatory and operational guidelines issued from time to time. This Credit / Loan Policy would continue as a **"Credit Risk Policy"** of the Bank. The objectives of the loan policy would precisely be as follows:

- To ensure credit growth both quantitatively and qualitatively through various channels in line with the common goals and objectives of the Bank.
- To build-up and maintain a well diversified credit portfolio.
- To strengthen the credit delivery system and to instil a sense of credit culture enterprise-wide.
- To strengthen the Credit Risk Management System with parameterization of risk identification, measurement, monitoring and mitigation.
- To set up prudential exposure norms and to address issues of credit concentration.
- To provide for risk based Loan Pricing Policy.
- To comply with various regulatory requirements, more particularly on Exposure norms, Priority Sector norms, Income Recognition and Asset Classification guidelines, , Credit Risk Management guidelines etc. of RBI / HO / other authorities.
- To guide officials handling credit to decide whom, why, how much, what rate, what period and with what terms and conditions to lend. How to monitor, follow up, and recover the facility extended.

The Bank has undertaken the following **measures for mitigating risk** and strategies/processes for monitoring the continuing effectiveness of mitigants:

- Clear definition of acceptable collaterals and factors governing the same
- Ensuring that there is no material positive correlation between borrower and guarantor
- Thorough analysis of strength of collaterals in terms of its legal certainty, enforceability and liquidity
- Creation of minimum stipulations and conditions for acceptance and valuation of collaterals
- Analysis of strength of guarantees in terms of its coverage of risks, enforceability and documentation
- Clearly outline in the policy the cases where insurance cover is required to be taken
- Regular monitoring and valuation of collaterals
- Clear and robust procedure for timely liquidation of collateral for prompt liquidation including those held by a custodian.
- Credit rating of obligors.

3.1.2.Past Due and Impaired Loans

The bank is following guidelines issued by Reserve Bank of India relating to income recognition, asset classification and provisioning of advances.

Non-performing assets (NPAs)

An asset becomes non-performing when it ceases to generate income for the Bank. With effect from March 31, 2006, a non-performing asset is an advance where:

- Interest and/or installment of principal remain 'overdue' for a period of more than 90 days in respect of a Term Loan,
- The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft / Cash Credit (OD/CC)
- The bill remains 'overdue' for a period of more than 90 days in the case of bills purchased and discounted,
- Any amount to be received remains 'overdue' for a period of more than 90 days in respect of other accounts.
- A loan granted for short duration crops is treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons and a loan granted for long duration crops is treated as NPA, if installment of principal or interest thereon remains overdue for one crop season.

- An account would be classified as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter

'Out of Order' status

An account will be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of Bank's Balance Sheet, or where credits are not enough to cover the interest debited during the same period, such accounts are treated as 'out of order'.

'Overdue'

Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

3.2. Quantitative Disclosures

3.2.1.Total Credit Risk Exposure and Geographic Distribution

(Rs.000's)

Geographic Distribution of Exposures			
	Domestic	Overseas	**Total**
Fund Based	16,143,310	-	**16,143,310**
Non-fund Based	3,933,680	50,522	**3,984,232**
Total Gross Credit Exposure	**20,076,990**	**50,522**	**20,127,542**

3.2.2.Industry Type distribution of Exposure:

(Rs.000's)

Industry Name	Fund Based Exposures	Non Fund Based Exposures*	Total Exposures
Iron and Steel	230,758	0	230,758
Other Metal and Metal Products	953,973	280,000	1,233,973
All Engineering	1,070,711	187,124	1,257,835
Vehicles, Vehicle Parts and Transport Equipments	3,750	0	3,750
Chemicals, Dyes, Paints etc	450,000	0	450,000
Infrastructure	3,223,503	0	3,223,503
NBFC's	1,103,147	0	1,103,147
Petroleum (non – infra), Coal Products (non – mining) Nuclear Fuels	450,000	8,645	458,645
Other Industries	400,486	102,186	502,672
Residuary Other Advances	3,256,982	3,406,277	6,663,259
BRDS	5,000,000	0	5,000,000
Total	**16,143,310**	**3,984,232**	**20,127,542**

* Non-Fund based exposures includes investment (i.e. Merchant Forward Contracts) exposures also.

<u>Residual Contractual Maturity breakdown of Assets</u>

(Rs.000's)

Maturity Pattern	Cash, Balances with RBI and other Banks	Advances	Investment	Other Assets including Fixed Assets
		(Net)	(Net)	
0-1 day	2,213,503	564,169	631,438	81,671
2-7 days	20,402	564,023	661,973	1,085
8-14 days	25,638	2,276,144	139,729	23,857
15-28 days	2,981	2,097,058	16,249	9,098
29 days- 3 months	18,627	1,885,207	101,519	8,945
3-6 months	5,523,157	192,087	126,208	193,867
6-12 months	58,769	2,337,741	364,019	-
1-3 years	167,980	2,099,796	1,046,678	-
3-5 years	2,066	305,869	11,261	-
Over 5 years	37,653	21,490	205,211	413,123
Total	**8,070,776**	**12,343,584**	**3,304,285**	**731,646**

3.2.3.Amount of Non-Performing Advances (NPAs)

(Rs.000's)

NPAs (Gross) as on 30.09.2014	
Category	Amount
Sub-Standard	230,758
Doubtful 1	0
Doubtful 2	0
Doubtful 3	0
Loss	282
Total	**231,040**

3.2.4.NPA Ratios

NPA Ratios as on 30.09.2014	
Gross NPAs to Gross Advances	1.85%
Net NPAs to Net Advances	0.56%

3.2.5.Amount of Net NPAs: Rs. 69,227 thousand.

3.2.6.Movement of NPAs and Movement of Provisions for NPAs

(Rs.000's)

Movement of NPAs (Gross)		Movement of provisions for NPAs (Gross)	
(i) Opening Balance at the beginning of the yr	231,040	(i) Opening Balance at the beginning of the yr	161,813
(ii) Additions during the yr	0	(ii)Provisions made during the yr	0
(iii) Reductions during the yr	0	(iii) Write-offs made during the yr	0
(iv) Write-offs made during the yr	0	(iv) Write-back of excess provisions made during the yr	0
Closing Balance as at 30th Sep 2014 (i+ii-iii-iv)	231,040	Closing Balance as at 30th Sep 2014 (i+ii-iii-iv)	161,813

3.2.7.Amount of Non-Performing Investments: Nil

Amount of Provisions held for Non-Performing Investments**: Nil**

3.2.8. Amount of Non-Performing Assets: **Rs. 18,135 thousand.** (This represents advance amount converted into share application money as per CDR restructuring package.)

Amount of Provisions held for Non-Performing Assets**: Rs. 12,695 thousand.**

3.2.9.Movement of Provision for Depreciation on Investments

(Rs.000's)

Movement of Provision for Depreciation on Investments	
(i) Opening Balance at the beginning of the yr	-
(ii)Provisions made during the yr	-
(iii) Write-offs made during the yr	-
(iv) Write-back of excess provisions made during the yr	-
Closing Balance as at the end of the yr (i+ii-iii-iv)	-

4. DF-5 Credit Risk: Disclosures for Portfolios subject to Standardised approach

4.1. Qualitative Disclosures

4.1.1.Ratings

As per the RBI guidelines, the bank has identified CARE, CRISIL, ICRA, Brickwork Rating India P. Ltd and Fitch India (Domestic Credit Rating Agencies) and Fitch, Moody's and S & P (International Rating Agencies) as approved rating agencies, for the purpose of rating the domestic and overseas exposures respectively, whose ratings are used for the purpose of capital calculation.

Currently most of the credit exposures of the bank are rated by aforesaid rating agencies as per RBI guidelines.

Types of exposures for which each agency will be used

- For exposures with a contractual maturity of less than or equal to one year (except cash credit, overdraft and other revolving credits), short-term ratings given by approved rating agencies to be used
- For domestic cash credit, overdraft and other revolving credits (irrespective of the period) and for Term Loan exposures of over one year, long term ratings to be used
- For overseas exposures, irrespective of the contractual maturity, long term ratings given by approved rating agencies to be used

Description of the process used to transfer Public Issue Ratings onto comparable assets in Banking Book

Long-term issue specific ratings (for the bank's own exposures or other issuance of debt by the same borrower-constituent/ counterparty) or issuer (borrower-constituent/ counterparty) ratings are applied to other unrated exposures of the same borrower-constituent/ counterparty in the following cases:

- If the issue specific rating or issuer rating maps to risk-weight equal to or higher than the unrated exposures, any other unrated exposure on the same counterparty is assigned the same risk weight, if the exposure ranks pari-passu or junior to the rated exposure in all respects
- In cases where the borrower-constituent/ counterparty has issued a debt (which is not a borrowing from the bank) the rating given to that debt is applied to the bank's unrated exposures, if the bank's exposure ranks pari-passu or senior to the specific rated debt in all respects and the maturity of unrated bank's exposure is not later than the maturity of rated debt

4.2. Quantitative Disclosures

4.2.1. Exposure amounts after Risk Mitigation (subject to the standardised approach)

(Rs.000's)

Sr No.	Exposure amounts after risk mitigation	Amount
1	Below 100% risk weight exposure outstanding	5,730,191
2	100% risk weight exposure outstanding	4,652,352
3	More than 100% risk weight exposure outstanding	722,457
	Total	**11,105,000**

5. DF-6 Credit Risk Mitigation

5.1. Qualitative Disclosures

5.1.1. Types of Credit Risk Mitigants

ADCB uses a variety of financial and non-financial collaterals and guarantees to mitigate the underlying credit risk in its regular lending operations. ADCB India has defined a list of eligible credit risk mitigants and permissible stipulations.

Financial Collateral

- Lien of Fixed Deposits, NSCs, LIC Policy, and Securities issued by Central /State Governments etc.
- Cash Margins for non-funded credit facilities

Non-financial collateral

- Hypothecation of Stocks / Book Debts / Accounts Receivables
- Assignment of Credit Card / Lease Rent receivables
- Mortgage on immoveable assets including real estate / property / factory land & building etc
- Hypothecation on movable fixed assets including plant and machinery

Guarantees

- Bank Guarantees including Standby LCs.
- Corporate Guarantee
- Personal Guarantee

Others

- Assignment of salary account and terminal benefits in case of staff loans as permitted by law

5.1.2.Valuation

The Credit and Risk Committee makes arrangement to conduct an independent valuation of the assets being pledged before acceptance and at defined frequencies depending on the nature of collateral. The valuation is conducted by a team of independent valuation experts or by a team of qualified staff from the Bank depending upon the nature of collateral.

Collateral is valued, wherever possible, at net realisable value, defined as the current market value less any potential realisation costs including but not limited to carrying costs of the repossessed collateral, legal fees or other charges associated with disposing of the collateral.

Bank aims to maintain a level of information about pledges and guarantees that is sufficient for it to regularly estimate the value thereof.
To some extent, the Bank receives guarantees for credit exposures. A large part of these guarantees are provided by enterprises or persons where a group relationship between the borrower and the guarantor exists.

5.1.3.Risk Concentration within the mitigation taken

ADCB uses the above mentioned financial, non-financial collaterals and guarantees to mitigate the underlying credit risk in its regular lending operations.

5.2. Quantitative Disclosures

For credit risk portfolio under the standardised approach, the **total exposure that is covered by eligible financial collateral after application of haircuts is Rs. 57 thousand.**

6. DF-7 Securitisation: Disclosure for standardised approach

The Bank currently does not have any securitised exposures.

7. DF-8Market Risk in Trading Book

7.1. Qualitative Disclosures

7.1.1.Overview of Policies and Procedures

Market risk of the Bank is defined as the risk to the Bank's earnings and capital due to changes in the market interest rate or prices of securities, foreign exchange, commodities and equities as well as their volatilities.

The **salient features of the market risk** at the Bank are as under:

- The 'Trading Book' of the Bank comprises primarily of exposures such as bonds held in AFS category and foreign exchange exposures in different currencies.
- Majority of investments are in 'Held to Maturity' category.
- The Bank has a detailed Treasury Policy covering investments, foreign exchange risk management and derivatives.

The **key aspects of the treasury policy** are as below:

- **Roles and Responsibilities:** The Bank has Asset Liability Committee (ALCO), which shall be responsible for defining, estimating the market risk inherent in all activities. As regards, Investments, the ALCO shall be responsible for the pattern and composition of investment. The mid-office shall assess the risk independently and is responsible for preparing stress testing scenarios, providing inputs in pricing market risk, performing revaluation and marking to market of market exposures and communicating short term view with regard to market risk profile of the Bank.
- **Valuation and Pricing:** The Bank values its foreign exchange including derivative positions on monthly mark to market basis based on the rates independently sourced from reliable agencies such as stock exchanges, Reuters, Bloomberg. The investments (all AFS Category) are valued on a monthly basis.

- **Approved Instruments and Currencies:** The Bank has in place an approved list of products for its interest rate and foreign exchange transactions. This provides a comprehensive framework comprising of foreign exchange spot and forward transactions, currency options, cross currency interest rate swaps, interest rate swaps in INR and foreign currency, forward rate agreements (FRAs), REPOs, CDs, CPs, and SLR & Non-SLR securities.

- **Limits:** The Bank has clearly defined limits for different categories of instruments. For foreign exchange risk, the Bank has put in place overnight spot position limits, aggregate gap limits, counterparty limits, trigger limits. For derivatives, the Bank has set exposure limits, trigger limits and tenor limits. As regards Investments, the Bank has set exposure limits, tenor limits, dealing limits, trigger limits, issuer concentration limits, credit rating wise limits, counterparty limits in lines with overall regulatory limits.

7.2. Quantitative Disclosures

7.2.1. Bank's Capital Requirement for Market Risk

(Rs.000's)

Risk Category	Capital charge
I. Interest Rate (a+b)	**3,007**
a. General market risk	3,007
i) Net position (parallel shift)	3,007
ii) Horizontal disallowance (curvature)	-
iii) Vertical disallowance (basis)	-
iv) Options	-
b. Specific risk	-
II. Equity (a+b)	**-**
a. General market risk	-
b. Specific risk	-
III. Foreign Exchange & Gold	**13,500**
IV. Total Capital charge for Market risks (I+II+III)	**16,507**

8. DF-9 Operational Risk

8.1. Qualitative Disclosures

8.1.1.Overview of Policies and Procedures

Operational risk is the risk of losses owing to

- Deficient or erroneous internal procedures and processes;
- Human or system errors; or
- External events, including legal risks.

This implies that operational risk is often associated with specific and one-off events, for instance failure to observe business or working processes, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation.

ADCB is in process of adopting "Sound Practices for the Management and Supervision of Operational Risk" and relevant BASEL II guidelines to strengthen its existing Operational Risk Management Framework. The Bank has a commitment to meeting high ethical and Operational Risk Management standards in the way it conducts its business.

The Bank has an IT and information security framework in place to ensure control over operations. It also has an internal audit framework to monitor adherence to laid-down processes.

Source of Risk	Bank's Current Position
Process	The Bank has a board approved Operational Risk Policy. The Bank has identified Key Risk Indicators (KRIs) and put in place Risk Control Self Assessment (RCSA) process. Bank has initiated an exercise to track and maintain operational loss data.
People	People Risk for the Bank emanates from the limited awareness of inherent risks in underlying activities.
Systems	ADCB India is exposed to risk of system failure, internet related frauds, hacking and phishing attacks. The Bank has a DRP framework in place and is in process of upgrading its IT security framework and setting up BCP framework.
External Events	ADCB India is exposed to the risks arising from external events like external fraud, natural disasters and exigencies like war.

Currently, ADCB has decided to apply the Basic Indicator Approach in the calculation of operational risk as per Basel II guidelines. The decision to adopt other approaches like Standardized Approach or Advanced Measurement Approach (AMA) will be reviewed in due course. The process of the collection of KRIs and RCSA data for AMA of the Operational Risk is already started.

8.2. Quantitative Disclosures

As on 30th Sep 2014, the Operational Risk Capital Charge for the Bank was **Rs. 838,448 thousands** based on previous 3 year's average gross income.

9. DF-10 Interest rate risk in banking book (IRRBB)

9.1. Qualitative Disclosures

9.1.1. Overview of Policies and Procedures

Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings or economic value of the Bank's Banking Book as a consequence of movement in interest rates. Interest rate risk arises from holding assets / liabilities and Off-Balance Sheet [OBS] items with different principal amount, maturity dates or repricing dates thereby creating exposure to changes in levels of interest rates.

Interest Rate Risk is part of the overall ALM (Asset Liability Management) Policy of the bank.

***Broad overview** of the ALM policy is as below:*

- Asset liability committee (ALCO) is responsible for the implementation of interest rate risk management strategy for the Bank. The day-to-day responsibility of risk measurement, monitoring, and evaluation rests with the Risk Evaluation Committee and the mid-office.
- Continuous monitoring of the interest rate sensitive gap statements across pre defined time buckets for measuring and managing the interest rate risk. The Bank has defined the approach to study interest rate risk via Net Interest Income (NII) and Market Value approach.

- Bank shall use Repricing Gap Approach and Economic Value Approach for Interest Rate Risk Analysis
- Bank has fixed interest rate gap limits for different time bucket, both for positive and negative interest rate scenarios.

9.2. Quantitative Disclosures

The Bank assesses its exposure to Interest Rate Risk in Banking Book using the Economic Value of Equity (EVE) approach &**calculate likely drop in Market Value of Equity with 200 bps change in interest rates. The estimated impact of such shock as at the end of the last quarter is as under:-.**

For quarter ending, 30th Sep 2014, **(Rs.000's)**

Particulars	INR & others
Impact on Economic Value of Equity (EVE), based on 200 bps change in interest rates	246,815
Impact on Earnings at Risk (EAR), based on 200 bps change in interest rates	67,955