Commercial Bank International

Basel II – Pillar 3 Disclosures

For the Year Ended

31 December 2016

Basel II – Pillar 3 Disclosures
For the Year Ended 31st December 2016

Date of Submission to CBUAE: March 2017

Reviewed & Approved By:

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Head of ERM	Chief Risk Officer	Chief Financial Officer

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Executive Summary

Pillar 3 Disclosures are important reporting requirements as per CBUAE & Basel II. The CBUAE is of the view that enhancing market transparency is best supported by the provision of disclosures based on a common framework. Pillar 3 disclosures act as an effective means of informing the market about the risk position of a bank in a consistent and comparable manner.

The disclosure is designed to complement the two other pillars of Basel 2 requirements, namely the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Pillar 3 disclosures should be read in conjunction with CBI's Annual Report and Financial Statements for the corresponding financial year.

The disclosure has been prepared in accordance with the rules laid out in the CBUAE guideline (Guidance for the Application of Pillar 3 Disclosures) and reported to CBUAE annually. This report consists of qualitative and quantitative information using tables in the following pages.

1. CBI's financial and non-financial subsidiaries/associates/joint ventures and other entities consolidated for accounting and regulatory purposes are disclosed in table 1.
2. Detailed description of capital structure is provided in table 2 which shows total eligible capital including Tier 1, 2 & 3 Capital.
3. Detailed information including both qualitative and quantitative information is given in table 3 (a & b) on capital adequacy. It includes a description of CBI's capital management strategy and strategies and policies on risk management, risk reporting and measurement system. This disclosure is in accordance with Basel II Para 824.
4. Table 4 (a) outlines the qualitative information on practices related to past due and classified accounts, and detailed discussion on bank's credit risk management policy.
5. Table 4 (b) and table 4 (c) outline Gross credit exposures for the bank by currency type and geography respectively.
6. Similarly bank's gross credit exposures by industry segment and residual contractual maturity are included in table 4 (d) and table 4 (e).
7. Table 4(f) and table 4(g) give quantitative data on impaired loans by Industry segment and geographic distribution respectively.
8. Table 4(h) outlines reconciliation of changes in provision for impaired loans and table 4(i) describes loan portfolio distribution as per Standardized Approach of Pillar 1.
9. Table 5 (a & b) outlines qualitative disclosures on External Credit Rating Agencies and quantitative disclosures on gross credit exposure segregated in rated and unrated categories across all asset classes.
10. Qualitative and quantitative information on credit risk mitigation disclosures as per Standardized Approach of Pillar 1 are provided in table 7 (a & b).
11. Table (10) outlines total capital requirement for Market Risk under equity, foreign exchange, interest rate, commodity and options risk categories.
12. General qualitative disclosures for equity positions in banking book as per Para 824 of Basel II are given in table 13. It also includes quantitative details of equity position and capital requirements by equity groupings of the bank.
13. Table 14 provides the results of interest rate sensitivity analysis
14. IFRS converge is addressed in the notes to Consolidated Financial statements (Note no 2)

1. Introduction

Pillar 3 Basel reporting complements the minimum capital requirements and supervisory review process. It consists of measures designed to promote enhanced market discipline. Pillar 2 concerns the supervisory review process. Pillar 1 contains a number of options for calculating banks' minimum capital charge for credit, operational and market risks. These options range from relatively simple methodologies to more complex approaches that utilize banks' own quantitative risk assessments. In providing a wide range of approaches, Basel II introduces regulatory capital requirements that capture risks more fully and are sensitive to the differing complexity of international banks.

This report is the Pillar 3 disclosure under CBUAE Basel II guidelines (CBUAE guidelines -November 2009 & newly issued guidelines 'Guidance for the Application of Pillar 3 Disclosures-May 2012'). An explanation of approaches adopted by the Bank for measuring minimum capital requirement for various Pillar 1 risks as well the Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 are discussed in subsequent sections of this report.

2. Scope of Application

The name of the top corporate entity in the group, to which these regulations apply, is Commercial Bank International PSC (the bank).The consolidated financial statements are prepared in accordance with the requirement of International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the Central Bank of UAE.

The consolidated financial statements incorporate the financial information of the Bank and its subsidiaries International Financial Brokerage LLC (the subsidiary - IFB) and Takamul Real Estate Company (the subsidiary - TRE), collectively referred to as Group as of 31st December 2016. The subsidiary – IFB is a limited liability company registered in the Emirate of Dubai and acts as a broker for customers trading in shares and securities on the Dubai Financial Market and the Abu Dhabi Exchange. The Bank owns 99.40% of the subsidiary – IFB. The subsidiary – TRE is a limited liability company registered in the Emirate of Dubai and acts as a real estate broker. The Bank owns 100 % of the subsidiary – TRE.

Table (1) - Information on Subsidiaries and Significant investments as on 31st December 2016

Basis of Consolidation							
Subsidiaries	**Country of Incorporation**	**% Ownership**	**Description**	**Accounting Treatment**	**Surplus Capital**	**Capital Deficiencies**	**Total Interests**
International Financial Brokerage	U.A.E.	99.4%	Brokerage for share trading	Fully consolidated	N.A	N.A	N.A
Takamul Real Estate	U.A.E.	100.0%	Developments, Buying, Selling, Leasing & Management of Real Estate Property	Fully consolidated	N.A	N.A	N.A
Significant Investments - NIL							

Notes to accounts on Significant Accounting Policies (Notes 2 &3) of the Consolidated Financial Statements provide details on the compliance to IFRS and IAS and their recent amendments.

3. Capital Structure

The authorized, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each as at 31 December, 2016.

Table (2) - Consolidated Capital Structure as on 31st December 2016

Consolidated Capital Structure as on 31st December 2016	
Tier 1 Capital	**Amounts in AED '000s**
1. Paid up share capital/common stock	**1,737,383**
2. Reserves	**84,631**
a. Statutory reserve	217,664
b. Special reserve	-
c. General reserve	142,952
d. (Accumulated Losses)/Retained earnings	(275,985)
3. Minority interests in the equity of subsidiaries	**340**
4. Innovative capital instruments	**459,125**
5. Other capital instruments	-
6. Surplus capital from insurance companies	-
Sub-total	**2,281,479**
Less: Deductions for regulatory calculation	-
Less: Deductions from Tier 1 capital	-
Tier 1 Capital - Subtotal	**2,281,479**
Tier 2 Capital	**215,212**
Less: Other deductions from capitals	-
Total eligible capital after deductions	**2,496,691**

The total capital base reported as per Audited Financials as of 31st Dec 2016 – AED 2,496,691K

Note: On 23 December 2015, the Bank issued Tier 1 Capital Securities (the "Capital Securities") through an SPV, CBI Tier 1 Private Ltd, ("the Issuer") amounting to USD 125 million (AED 459.125 million). Tier 1 Capital Securities are perpetual, subordinated and unsecured. (Refer Note 16 of Consolidated Financial Statements).

4. Risk Management

The Bank undertakes a wide variety of businesses and hence is required to be able to identify measure, control, manage, monitor and report risks in a clear manner. The important aspects of the Bank's risk management are risk governance, risk architecture, approval mechanism, processes, guidelines and an elaborate internal control mechanism.

The management of main risks for the Bank is specifically organized under the Risk Group. Credit Risk, Market Risk & Operational Risk are handled by experienced team of risk professionals. Special unit to handle Fraud Prevention & Monitoring is established under Risk Group during 2016.

5. Capital Adequacy

Implementation of Basel II Guidelines

The bank is compliant with the Standardized Approach for Credit, Market and Operational risks. The bank also assigns capital on other than Pillar 1 risk categories for Interest Rate risk in Banking Book (IRRBB), Liquidity risk and Credit Concentration risk in the Pillar 2 ICAAP reporting.

Risk Capital & Basel Implementation Policy is developed based on CBUAE guidelines and approved by Board of Directors. The policy is implemented to ensure compliance with Basel II guidelines and sound capital management process.

3 (a) –Qualitative Disclosures Risk Management

CBI is subject to compliance to the capital adequacy guidelines stipulated by CBUAE which are in the framework of Basel Committee of Banking Supervision. The approach taken by CBI to assess the adequacy of its capital is based on these guidelines and the approved Internal Risk Capital & Basel Implementation Policy. As stipulated by CBUAE in its guidelines (specified in Notice 4004/2009), the bank is required to maintain a minimum Capital Adequacy Ratio (CAR) of 12%.

CBI's strategy is to keep adequate capital levels all the times to meet regulatory requirements while aiming to optimize the return to shareholder's capital. In accordance with the capital management strategy, the bank recognizes balance between efficiency, flexibility and adequacy in the consideration of capital management. The following considerations are detailed in Internal Capital Adequacy Assessment Process (ICAAP):

- The development of capital management strategy, which includes levels of capital buffers, contingent plans, the availability of capital deployed and the various forms of capital instruments; and

- Simulating its capital measures using stress and scenario testing that includes the possibility of variability from planned outcomes, unexpected scenarios, and the impact of concentrations.

6. Credit Risk

The Bank has adopted the Standardized Approach for measuring minimum capital requirement for credit risk.

Exposures after application of specific provisions, if any, and / or eligible credit risk mitigants, are multiplied by the specified risk weight to arrive at the Risk Weighted Asset (RWA). Off-balance sheet exposures are adjusted using product type specified Credit Conversion Factors (CCF) before determining the RWAs. Similarly, derivatives are considered at their Credit Equivalent Amount before determining RWAs.

Policies and processes:

The Credit Policy of the Bank has been prepared with the broad objective of meeting the following goals:

1. Adhere to the guidelines or policies pronounced by CBUAE; and
2. Hold a diversified good quality asset portfolio through risk based lending.

In order to assess the credit risk associated with any financing proposal; the Bank assesses a variety of risks relating to the borrower and the relevant industry. The Bank evaluates borrower risk by considering:

1. The borrower's financial position by analyzing its financial statements, history of financial performance, and cash flow adequacy;
2. The borrower's relative business competitiveness, business strategy, market position and operating efficiency; and
3. The quality of management by analyzing their track record, payment record and financial conservatism.

The Bank evaluates industry risk by considering:

1. Certain industry characteristics, such as position of the industry in the economy, cyclicality and government policies relating to the industry;
2. The competitiveness of the industry; and
3. Certain industry statistics, including industry growth rate, return on capital employed, operating margins and earnings stability.

CBI is working on developing a system for ECL (Expected Credit Loss) calculation based on IFRS 9.

7. Market Risk

The Bank uses the Standardized Approach to calculate the regulatory capital requirements relating to market risks (covering interest rates, equity, foreign exchange, commodity and options). The scope and charges are restricted to 'trading book' only for the interest rate risk and equity positions while the remaining will apply to the bank's entire positions. The bank currently does not hold trading positions, in line with its risk appetite.

8. Operational Risk

CBI is adopting the Standardized Approach at present, for calculation of regulatory capital requirements for operational risk. The capital charge is calculated at 12% to 18% business type specific β factors to three years average of gross income.

9. Internal Capital Adequacy Assessment Process (ICAAP)

The oversight for assessment of credit, market, operational, and others risks such as liquidity, concentration, legal, stress testing and reputation risks and the adequacy of capital to meet current and future requirements of the Bank lies with the Bank's Board of Directors.

As per requirements of Pillar 1 & recent ICAAP guidelines, CBUAE made it mandatory for all banks to maintain a minimum capital adequacy ratio of 12%. CBI under Pillar 2 requirements for the year 2016 added an additional charge of 1% showing internal assessment of capital adequacy and making ICAAP of 13%.

Table (3b) - Capital Adequacy as on 31st December 2016

Capital Adequacy as on 31st December 2016		
Quantitative Disclosures	**RWA Amount (AED 000's)**	**Capital Charge (AED 000's)**
Capital Requirements		
1. Credit Risk		
a. Standardized Approach	15,775,392	1,893,047
2. Market Risk		
a. Standardized Approach	1,187	142
3. Operational Risk		
a. Standardized Approach	1,509,439	181,133
Total Capital requirements	**17,286,018**	**2,074,322**
Capital Ratio		
a. Total for Top consolidated Group	**14.44%**	
b. Tier 1 ratio only for top consolidated Group	**13.20%**	

10. Past Due & Impaired Loans

4(a) - Qualitative Disclosures

Definition of past due and impaired (for accounting purposes) -

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Exposures to customers, the full recovery of which appears to be doubtful due to adverse factors (financial, economic, political or managerial) or due to weakening of security or failure to meet maturing commitments persistently, are classified past due.

Description of approaches followed for specific and general allowances and statistical methods:

Specific Provision

The specific provision requirement is in line with the CBUAE guidelines (Circular No 28/2010)

Risk Grade	Provision against Net Loan Value
Sub-standard	25%
Doubtful	50%
Loss	100%

General Provision

General provisioning in the bank is done based on CBUAE regulation on Classification of Loans & their Provisions (Circular no 28/2010). These provisions are calculated at 1.5% multiplied by the ‘normal’ and ‘watch list’ Credit Risk Weighted Assets (CRWA) calculated as per Basel II reports.

Discussion of Bank’s credit risk management policy:

Credit Risk Management guidelines provide direction on how CBI seeks to manage and control the most important part of its risk profile, that is Credit Risk, and most importantly embed a culture of risk awareness throughout the organization. It is by way of these guidelines, CBI is aiming to address the following areas:

1. Establishing a sound credit risk management function;
2. Setting up credit risk policy;
3. Operating under sound credit granting and credit administration Processes;
4. Ensuring proper monitoring and control over credit risk;
5. Implementing credit risk mitigation strategies;
6. Maintaining proper asset classification system;
7. Maintaining bank’s capital in line with regulatory guidelines and bank’s risk profile; and
8. Having strong and transparent reporting system in place.

Policies and guidelines with respect to Capital Management are established to meet regulatory capital requirements as well as the target set out in ICAAP as part of Pillar II requirements in Basel II guidelines.

To establish a strong credit generation and approval process, credit risk management guidelines contain review of –

1. Credit manuals which embed the credit culture in the relevant line of businesses;
2. These manuals include general policies covering the origination, evaluation, approval, documentation, settlement and on-going management of credit; and
3. Credit approval limits represent the formal delegation of Board credit approval authority to responsible individuals throughout the organization and govern the extension of credit.

11. Risk Analytics

Risk Analytics and reporting is one of the most important tools to monitor, review and communicate the risks which the bank is exposed to. The main objective of the risk analytics and reporting framework is to address the major risks to the top management in order to have clear-cut strategies and decisions to manage the risks which help in achieving the bank's goals. The framework aims to:

1. Comply effectively with Basel II regulatory standards;
2. Enhance decision support by enabling consolidated analysis of risk exposures across both banking and trading books;
3. Enable proactive risk control for credit portfolios;
4. Enable easy and rapid adaptation to complex and changing credit scenarios, to rapidly and comprehensively evaluate credit risk of portfolios,
5. Identify potential problems in the credit risk portfolio; and
6. Evaluate credit risk from both a product-specific and enterprise-level perspective across products.

Partial adoption of foundation IRB/advanced IRB -

Bank is following the Standardized approach currently.

Approach	Description of exposures	Plans and timing of migration to implement fully higher approach
Standardized Approach	Bank is currently following Standardized approach for credit, market risk, and operational risk to calculate CAR under guidelines stipulated by CBUAE under the framework of Pillar I of Basel II guidelines.	
Foundation IRB	CBI is planning to implement the FIRB in line with the Risk management plan, as part of this , Internal Rating system named 'Risk Analytics' from Moody's Analytics has been implemented in 2012. The archiving, model validations etc are scheduled to be completed in next two years. The migration will be as per CBUAE guidelines and approvals.	
Advanced IRB	As per CBUAE guidelines	

12. Credit Risk Related Disclosures

Credit risk is the risk of loss to the Group if a customer or counterparty fails to meet its contractual obligations on a financial instrument and arises principally from loans and advances and non trading investments. Credit risk can also arise from financial guarantees, letters of credit, endorsements and acceptances. The Bank's credit risk management process is quite independent of the business so as to protect integrity of the risk assessment process and decision making.

Different credit approval processes exist for each customer type which ensures that appropriate skills and resources are employed in credit assessment and approval. The guidelines for approving new credits, renewing existing credits, or changes in the existing terms and conditions of the previously approved credits are provided in the credit manual. The Bank uses 'Risk Analytics' system, one of the well-known solution for risk rating from 'Moody's Analytics' to capture, analyze and store financial and non-financial borrower and facility information. The bank has implemented Moody's 'Risk Origin', a loan work flow system, for credit initiations and approvals.

The Bank uses a wide range of collaterals in the process of managing its counterparty risks. However, the applicable financial collateral for credit risk mitigation under Basel II is restricted to pledge of cash margins and deposits held with the Bank and other listed Equities. Guarantees used for risk transfer purposes are mainly bank guarantees that meet the requirements stipulated in the Basel Accord.

Detailed explanations are available in Note to accounts No 38.1/Credit Risk

Table 4(b) - Gross Credit Exposures by Currency Type as on 31st December 2016 (AED'000)

Currency Type	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded	Total
Foreign Currency	2,609,128	933,565	3,542,693	4,153	1,531,766	771,400	2,307,319	5,850,012
AED	11,536,605	-	11,536,605	2,940,511	364,377	2,716,593	6,021,481	17,558,086
Total	**14,145,733**	**933,565**	**15,079,298**	**2,944,664**	**1,896,143**	**3,487,993**	**8,328,800**	**23,408,098**

Table 4 (c) - Gross Credit Exposures by Geography as on 31st December 2016

(AED 000's)

Geographic Distribution	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded	Total
United Arab Emirates	12,885,341	380,139	**13,265,480**	2,892,212	1,896,143	3,417,972	**8,206,327**	**21,471,807**
GCC excluding UAE	353,827	516,518	**870,345**	52,452	-	32,369	**84,821**	**955,166**
Arab League (excluding GCC)	887	-	**887**	-	-	6,285	**6,285**	**7,171**
Asia	226,054	36,908	**262,961**	-	-	2,168	**2,168**	**265,129**
Africa	557	-	**557**	-	-	15,974	**15,974**	**16,531**
North America	450,087	-	**450,087**	-	-	-	-	**450,087**
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	228,981	-	**228,981**	-	-	13,227	**13,227**	**242,207**

Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total	**14,145,733**	**933,565**	**15,079,298**	**2,944,664**	**1,896,143**	**3,487,993**	**8,328,800**	**23,408,098**

Table 4(d) - Gross Credit Exposure by Industry Segment as on 31st December 2016

(AED 000's)

Industry Segment	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded	Gross
Agriculture, Fishing & related activities1	-	-	-	5,560	-	248	**5,808**	**5,808**
Crude Oil, Gas, Mining & Quarrying2	61,560	-	**61,560**	-	-	459	**459**	**62,019**
Manufacturing3	685,266	-	**685,266**	418,032	90,642	282,719	**791,393**	**1,476,658**
Electricity& Water	28,017	-	**28,017**	0	-	272	**272**	**28,289**
Construction 4	1,155,328	-	**1,155,328**	970,204	133,751	2,170,140	**3,274,096**	**4,429,424**
Trade	2,373,154	-	**2,373,154**	751,537	1,355,249	355,678	**2,462,464**	**4,835,618**
Transport, Storage & Communication6	1,271,305	-	**1,271,305**	219,899	-	11,880	**231,779**	**1,503,084**
Financial Institutions 7	28,310	36,908	**65,218**	18,919	-	155,015	**173,934**	**239,152**
Services8	2,461,222	-	**2,461,222**	195,448	316,501	497,154	**1,009,103**	**3,470,325**
Government9	184,111	896,657	**1,080,769**	-	-	-	-	**1,080,769**
Retail/Consumer banking10	2,915,810	-	**2,915,810**	170,813	-	3,372	**174,186**	**3,089,996**
All Others and Real Estate	2,981,651	-	**2,981,651**	194,251	-	11,057	**205,308**	**3,186,959**
Total	**14,145,733**	**933,565**	**15,079,298**	**2,944,664**	**1,896,143**	**3,487,993**	**8,328,800**	**23,408,098**

Table 4(e) - Gross Credit Exposures by Residual Contractual Maturity as on 31st December 2016

(AED 000's)

Residual contractual maturity	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded
Less than 3 months	806,298.40	-	806,298	686	1,312,838	1,366,531	2,680,055
3 months to one year	3,434,718	-	3,434,718	2,834,593	583,305	1,783,950	5,201,848
One to five years	5,467,923	386,746	5,854,669	15,239	-	331,215	346,454
Over five years	4,436,794	546,819	4,983,613	94,146	-	6,298	100,444
Grand Total	**14,145,733**	**933,565**	**15,079,298**	**2,944,664**	**1,896,143**	**3,487,993**	**8,328,800**

*Overdraft has been included in ‘Less than 3 Months’ category.

Table 4(f) - Impaired Loans by Industry Segment as on 31st December 2016

(AED 000's)

Industry Segments	Overdue			Provisions		Interest in Suspense	Adjustments		Total Impaired Assets net of Provision & IIS
	Less than 90 days	90 days and above	Total	Specific	General		Write-offs	Write-backs	
Agriculture, Fishing & related activities 1	-	-	-	-		-	-	-	-
Crude Oil, Gas, Mining & Quarrying2	-	-	-	-		-	-	-	-
Manufacturing3	7,298	43,220	50,518	50,689		2,298	39,656	699	(2,469)
Electricity& Water	-	-	-	-		-	-	-	-
Construction 4	-	79,357	79,357	5,735		13,673	3,217	8,391	59,949
Trade5	108,103	407,025	515,127	175,563		39,237	144,323	9,597	300,327
Transport, Storage & Communication6	-	-	-	-		-	1	113	-
Financial Institutions 7	-	-	-	-		-	-	-	-
Services8	192,535	190,201	382,736	154,641		26,885	14,697	51,647	201,210
Government9	-	-	-	-		-	-	-	-
Retail/consumer banking1o	-	56,378	56,378	29,383		1,040	139,860	6,468	25,955
All Others / Real estate	-	267,025	267,025	82,172		54,161	-	20,926	130,692
Grand Total	**307,936**	**1,043,205**	**1,351,141**	**498,183**	**236,954**	**137,294**	**341,754**	**97,840**	**715,664**
Less : General Provision									236,954
Total Impaired Assets Net of Total Provision & IIS									**478,710**

*General Provision is given as a consolidated amount without any industry segmentation

Table 4(g) - Impaired Loans by Geographic Distribution as on 31st December 2016

(AED 000's)

Geographic Region	Overdue			Provisions		IIS	Adjustments		Total Impaired Assets
	Less than 90 days	90 days and above	Total	Specific	General		Write-offs	Write-backs	
United Arab Emirates	307,936	1,043,205	1,351,141	498,183		137,294	341,754	97,840	715,664
GCC (excluding UAE)	-	-	-	-		-	-	-	-
Arab League (excluding GCC)	-	-	-	-		-	-	-	-
Asia	-	-	-	-		-	-	-	-
Africa	-	-	-	-		-	-	-	-
North America	-	-	-	-		-	-	-	-
South America	-	-	-	-		-	-	-	-
Caribbean	-	-	-	-		-	-	-	-
Europe	-	-	-	-		-	-	-	-
Australia	-	-	-	-		-	-	-	-
Others	-	-	-	-		-	-	-	-
Grand Total	307,936	1,043,205	1,351,141	498,183	236,954	137,294	341,754	97,840	715,664
Less : General Provision									236,954
Total Impaired Assets Net of Total Provision & IIS									**478,710**

Table 4(h) - Reconciliation of Changes in Provision for the period – 1st January 2016 to 31st December 2016

	AED '000
Reconciliation of Changes in Provision for the period – 1st Jan 2016 to 31st Dec 2016	
Opening Balance of Provisions for Impaired Loans	800,067
Provision for the Year	454,499
Interest in Suspense during the Year	57,459
Write-off during the Year	(341,754)
Recoveries during the Year	(97,840)

Closing Balance of Provisions	872,431

Table 4(i) - Portfolio as per Standardized Approach as on 31st December 2016

Assets Classes	On & Off Balance Sheet	Credit Risk Mitigation (CRM)		On & Off Balance Sheet	Risk weighted assets
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	Gross Outstanding	Exposure before CRM	CRM	Net Exposure After CCF	
Claims on Sovereigns	2,406,008	2,406,008	-	2,406,008	-
Claims on Non-Central Government public sector entities. (PSE's)	-	-	-	-	-
Claims on multilateral development banks	-	-	-	-	-
Claims on banks	733,794	733,794	-	695,208	238,729
Claims on securities firms	-	-	-	-	-
Claims on Corporate & Government Related Entities	16,428,481	16,297,222	2,107,990	12,666,949	10,597,873
Claims included in the regulatory retail portfolio	3,154,448	3,152,557	36,412	2,978,033	2,224,650
Claims to secured by residency property	990,944	990,943	-	990,234	389,666
Claims secured by commercial real estate	341,921	338,893	-	315,536	315,536
Past due loans	1,433,186	946,301	145,858	905,074	960,034
High risk categories	5,892	5,892	-	5,892	8,838
Other assets	2,111,235	2,110,536	-	2,110,536	1,040,066
Claims on securitized assets	-	-	-	-	-
Credit derivatives (Banks Selling protection)	-	-	-	-	-
TOTAL CLAIMS	**27,605,909**	**26,982,147**	**2,290,259**	**23,073,469**	**15,775,392**

5 (a) Qualitative Disclosures

CBI is using following ECAIs under rated claims as stated in below table:

1. Claims on Banks - Moody's, S&P, Fitch and Capital Intelligence;
2. Claims on Corporate - Moody's, S&P, Fitch and Capital Intelligence
   - In cases where two ratings are available, the lower rating will be applied; and
   - In cases where three or more ratings are available, the second-lowest rating will be applied.

Types of exposure for which each agency is used:

The mapping of external ratings to Bank's facility has been undertaken on a case by case basis.

Table 5 (b) – Portfolio as per Standardized Approach as on 31st December 2016

AED '000

Asset Class	On & Off BS Exposure Before CCF & CRM			**On & Off BS** Net exposure after CCF & CRM	**Risk Weighted Assets**
	Rated	**Unrated**	**Total**		
Claims on Sovereigns	2,406,008	0	2,406,008	2,406,008	0
Claims On Non-Commercial Public Sector Enterprises (PSEs)	0	0	0	0	0
Claims On Multi-Lateral Development Banks	0	0	0	0	0
Claims On Banks	733,794	0	733,794	695,208	238,729
Claims On Securities Firms	0	0	0	0	0
Claims On Corporates And Government Related Enterprises (GRE)	159,561	16,268,920	16,428,481	12,666,949	10,597,873
Claims Included In The Regulatory Retail Portfolio	0	3,154,448	3,154,448	2,978,033	2,224,650
Claims Secured By Residential Property	0	990,944	990,944	990,234	389,666
Claims Secured By Commercial Real Estate	0	341,921	341,921	315,536	315,536
Past Due Loans	0	1,433,186	1,433,186	905,074	960,034
Higher-Risk Categories	0	5,892	5,892	5,892	8,838
Other Assets	933,565	1,177,670	2,111,235	2,110,536	1,040,066
Securitisation Exposures			0	0	0
Grand Total	**4,232,928**	**23,372,981**	**27,605,909**	**23,073,469**	**15,775,392**

*Rated includes Sovereigns and Non Commercial PSEs

13. Credit Risk Mitigation

7 (a) - Qualitative Disclosures

- **Policies and processes for collateral valuation and management**: CBI uses the comprehensive approach for collateral valuation, which is in compliance to CBUAE guidelines in this regard. Under this approach, the bank reduces its credit exposure while calculating capital requirements to the extent of mitigation provided by the eligible financial collateral (as specified in the Basel II guidelines). In line with Basel II guidelines, the bank adjusts the value of any collateral received to adjust for possible future fluctuations in the value of the collateral (i.e., 'haircuts') in line with the requirements specified by CBUAE guidelines. These adjusted amounts for collateral are reduced from the exposure to compute the capital charge based on the applicable risk weights.
- **Description of the main types of collateral taken by the bank**: CBI determines the appropriate collateral for each facility based on the type of product and counterparty. The main types of collaterals taken by the bank currently are equities, fixed deposits under lien and cash margin.

Table 7 (b) - Credit Risk Mitigation – Standardized Approach as on 31st December 2016

Credit Risk Mitigation – Standardized Approach as on 31st December 2016	
Particulars	**Exposures**
Net Exposure after Credit Conversion Factor prior to Credit Risk Mitigation	**23,073,469**
Less: Exposure covered by on-balance sheet netting	0
Less: Exposures covered by Eligible Financial Collateral	2,239,515
Less: Exposures covered by Guarantees [1]	27,094
Less: Exposures covered by Credit Derivatives	0
Net Exposures after Credit Conversion Factor & Credit Risk Mitigation	**20,806,860**
Risk Weighted Assets	**15,775,392**

[1.] CRM impact related to substitution of risk weights (Bank guarantees).

Credit Risk Mitigation

Particulars	Amount
Eligible Financial Collateral	2,239,515
Bank Guarantees Gross	50,744
Total	**2,290,259**

14. Market Risk Related Disclosures

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates, and credit spreads will affect the bank's income and/or the value of the financial instrument. The risk limits are set by ALCO as delegated by the Board of Directors and monitored by Risk Management Department. The Risk Management Department is responsible for the development of detailed risk management policies and for the day to day review of their implementation subject to the review and approval by ALCO.

For the measurement of minimum capital requirement for market risks under Pillar 1, the Bank uses the Standardized Approach.

Table 10 - Total Capital Requirement for Market Risk under Standardized Approach as on 31st December 2016

Total Capital Requirement For Market Risk Under Standardized Approach as on 31st December 2016	
Market Risk	**Amount in AED'000s**
Interest rate risk	-
Equity position risk	-
Foreign exchange risk	142
Commodity risk	-
Options Risk	-
Total Capital Requirement	**142**

15. Equity position in the Banking Book

13 (a) Qualitative Disclosures

The general qualitative disclosure requirement (Paragraph 824 of Basel II) with respect to equity risk, including:

- Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons:

The holdings on which capital gains are expected are held either at fair value through profit and loss i.e., acquired principally for the purpose of selling in the short term or if so designated by the management, or at fair value through equity i.e., acquired for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices. Fair value is determined based upon current bid prices.

Where the investment is held for long term strategic purposes, these investments are accounted for available for sale, with changes in fair value being recognized in equity.

- Discussion of important policies covers the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices:

Equity holdings in the banking book are held for indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices. Valuation of such instruments is done at fair value. Any gains or losses arising from changes in fair value are recognized directly in equity, until the financial asset is derecognized or impaired, at which time, the cumulative gain or loss previously recognized in equity is recognized to income statement. Fair value is determined based upon current bid prices.

As at 31st December 2016, the Bank's total equity investment portfolio (Including Mutual Funds) in the banking book amounted to AED 95,487/- (AED in 000's).

Table 13 (b) – Quantitative Disclosures

(AED 000's)

Type	2016		2015	
	Publicly Traded	Privately Held	Publicly Traded	Privately Held
Equities	18,899	70,696	20,105	70,611
Collective investment schemes		5,892		7,669
Any other investment				
Total	**18,899**	**76,588**	**20,105**	**78,280**

Realized, Unrealized and Latent Revaluation Gains (Losses) During the Year:

Gains (Losses)	Amount
Realized gains (losses) from sales and liquidations	
*Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	88
**Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account	
Total	88

Items in (2) Above Included In Tier 1/Tier 2 Capital

(AED 000's)

Tier Capital	Amount
Amount included in Tier I capital	-
Amount included in Tier II capital	-
Total	-

Capital Requirements by Equity Groupings

(AED 000's)

Grouping	Amount
Strategic investments	-
Fair Value through Other Comprehensive Income (FVTOCI)	95,487
Held for trading	-
Total capital requirement	**95,487**

16. Interest Rate Risk in Banking Book (IRRBB)

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability, cash flows or the fair values of financial instruments. Interest Rate Risk in the Banking Book (IRRBB) is defined as the exposure of the non-trading financial instruments to interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period.

14: Interest Rate Risk in the Banking Book as of 31st December 2016

For measuring the overall interest sensitivity in the banking book, CBI conducts stress tests on the rate sensitive assets and liabilities by simulating 200 basis points parallel shifts to the yield curve and assessing the impact on its Net Interest Income and Capital. The following impact on the net interest income and regulatory capital for the year of a movement in interest yield curves as at 31/12/2016

Shift in Yield Curves	Net Interest Income (AED'000)	Capital Base
(+ /-) 200 basis point	32,250	Decrease/Increase by 1.29%

17. Operational Risk related Disclosures

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. The typical operational risk events include internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and system failure; execution, delivery and process management.

The Operational Risk Management Unit (ORMU) performs regular operational risk monitoring activities in order to promptly detect deficiencies in the policies, procedures and processes, and propose corrective actions.

Operational Risk Management Policy is implemented to ensure compliance to best practices and standards of operational risk.

Bench Marking ORM Standards	CBI's ORM Tools
Sound Operational Risk Management System	• Risk & Control Self-Assessment (RCSA) • Key Risk Indicators (KRI) • Risk Reviews (Stem, Policies, Procedures etc.) • Awareness Trainings
Systematic tracking of historic loss data	• Loss Event/Incident Database • System "GRC Accelerate"
Measurement integrated in day-to-day risk management	• Integrated RCSA /KRI & Loss Event Data
Reporting of Operational Risk to the management	• Periodic Dashboards & Reports

CBI has implemented the operational risk system (ORS) called 'GRC Accelerate'. The ORS is used to capture, analyze and report loss/incident data and is mapped to all seven risk categories across all eight business lines. ORS also captures RCSA's and KRI's for all divisions of the bank and also assesses the respective tool(s) results.

CBI reports the OR capital charges and RWA's using the Standardized Approach (TSA).

Risk Weighted Assets for operational risk (Consolidated) has been calculated based on Standardized Approach (TSA) as below:

	AED'000
Operational Risk – 31st December 2016	
Operational Risk	**Risk Weighted Assets**
Standardized Approach	1,509,439

18. Qualitative Disclosure on Remuneration

For the executives and managers, the Bank has a salary / compensation policy which is decided by the Board of Directors.

The compensation usually consists of a fixed component and a variable component in the form of performance based annual bonuses. The variable component is based on a well-defined, system based performance appraisal of each individual on an annual basis.

The compensation and benefits to “risk takers” also follow the same principles. There are no deferrals or other forms of compensation like equity or options.