

Risk Appetite Statement

The Risk Appetite Framework (RAF) informs the process the Bank uses to oversee and regularly assess the following:

- The Bank's risk appetite setting process.
- The appropriate balance between risk and reward to maximise shareholder returns.
- The identified key risks that impact the Banks' ability to achieve its business strategy and objectives.

The Risk Appetite Framework (RAF) ensures that the Bank's approach to risk is embedded within the corporate strategy and works to define the risk culture of the Bank. The framework supports the Banks' commitment to hiring and retaining skilled people, ensuring clear accountability amongst employees, and making available the correct systems, processes and policies, in order to:

- Set the strategic plan and objectives of the Bank.
- Align the risk strategy with the risk capacity of the Bank.
- Articulate and cascade risk appetite statements and limits.
- Monitor and report risk profile versus appetite.
- Control and correct the risk profile should it deviate from appetite, including adjusting the business strategy if necessary.

CBI Risk Appetite Statement refers to the formal articulation of CBI's willingness to:

- Take on certain calculated risks.
- Avoid or minimize other risks in the pursuit of its strategic objectives.

CBI defines its Risk Capacity as the maximum amount of risk the Bank is technically able to assume before breaching constraints determined by one or more of the following: liquidity, borrowing capacity, reputation and regulations.

The Risk Capacity is measured by defining certain parameters called Risk Limits. The Risk Limits enable the Bank to assess various categories of risk and to measure aggregate amount of risk. Therefore, the risk limits must always be measurable and objective.

Risk Appetite and Risk Culture needs to be:

- Communicated to all employees engaged in the business of taking risk and in control functions.
- Incorporated into performance objectives.
- Incorporated into any discussions on business initiatives and opportunities.

Commercial Bank International Board of Directors overarching risk appetite is to:

- Take on revenue generating funded and non-funded assets within the UAE that meet its Risk Adjusted Return on Capital ("RAROC") requirements and can be funded from existing resources;
- De-risk its non-core asset, compliance, funding and operational risk profiles through divesting non-core assets, diversifying funding sources, strengthening IT resilience and compliance controls and promoting a robust risk culture across the Bank.

In reference to the above and considering its Risk Appetite, the Board defines its Risk Capacity as:

- **Capital** – the Bank will not accept any risk that would result in its reportable Total Capital or Common Equity Tier 1 falling below regulatory requirements.
- **Credit Risk** – the Bank will limit name concentration and ensure NPL (Non-performing Loan) ratio is controlled.
- **Liquidity** – the Bank will not accept any risk that would result in its Liquidity ratios falling below regulatory requirements.
- **Regulatory** – the Bank will not knowingly breach any applicable law or regulation.
- **Operational** – the Bank will not take any risk that cannot be assessed, reported, or controlled or that, in extremis, could jeopardize the viability of the Bank.
- **People** – the Bank will not accept any unethical behaviour that severely impacts its reputation with stakeholders, including customers, employees, regulators, and shareholders.
- **Compliance Risk** -- the Bank will not knowingly facilitate criminal activities by customers, including but not limited to tax evasion, money laundering, terrorist financing or any other fraudulent or illegal activity and will abide by all compliance related regulations.

CBI Risk Appetite Statement

CBI will:

- Commit to combat financial crime and ensure that accounts held at our firm are not misused for the purpose of money laundering or terrorism financing.
- Screen customers (new and existing) based on their risk profile with appropriate tools to mitigate financial crime risk, including money laundering, terrorist financing, sanctions, and fraud.
- Adopt a risk-based approach to transaction monitoring and will ensure alerts are managed promptly, not to exceed the shorter of one month or regulatory requirements.
- Accept new-to-Bank high-risk prospective customers based on satisfactory enhanced due diligence requirements and management approval, not to exceed 5% of new customers in 2020 and thereafter.
- Ensure compliance with internal and regulatory thresholds.
- Follow strict escalation and reporting of any exceptions.
- Ensure regular reporting on the high-risk portfolio to Management and Board Risk Committees
- Exit non-borrowing relationships that are classified as 'Prohibited' and closely monitor 'High Risk' relationships with the objective to significantly reduce the number of such accounts.
- Monitor borrowing relationships that are identified as 'Exit', on a quarterly basis in order to make sure that the exposure reductions are in line with exit strategies on each account.
- Implement AML & KYC related processes governed by 'Anti-Money Laundering (AML), Countering Terrorist Financing (CTF) & Know Your Customer (KYC) Policy & 'Guidelines for Customer Relationship Reviews' adopted from time to time by the Board of Directors.
- Ensure significant breach to risk appetite metrics are reported to Central Bank UAE as part of CRO (Chief Risk Officer) update.

CBI will not:

- Knowingly facilitate criminal activities by customers, including but not limited to tax evasion, money laundering, terrorist financing or any other fraudulent or illegal activity.
- Solicit or accept (only under special circumstances and by approval of the Board of Directors) foreign Politically Exposed Persons, other than Politically Exposed Persons from Gulf Cooperation Council countries, even if resident in UAE.
- Accept any deliberate or systemic breaches of applicable laws and regulations and will seek to avoid inadvertent regulatory errors and omissions by maintaining robust control processes.
- Solicit or accept accounts with non-UAE resident individuals or entities of sanctioned countries in a prohibited line of business.
- Facilitate transactions with sanctioned individuals or entities. Sanction screening will be undertaken in line with prevailing market practice.
- Permit domestic local currency payments to accounts at UAE Banks that are to be sanctions screened.
- Onboard new relationship with any individuals or entities that are:
 - sanctioned; or
 - conducting prohibited, illegal, or illegitimate line of business; or
 - working for an entity with prohibited line of business; or
 - domiciled in a sanctioned country; or
 - being non-resident with 'High Risk' classification – subject to clearance by Compliance and close monitoring.
- Operate any line of business or do business with any customer segment in which Management believes that its control environment cannot protect the Bank from risks that exceed its stated tolerance.

CBI will be guided by the Risk Appetite Framework & Statement approved by the Board Risk Committee (reviewed on yearly basis) and will keep all stakeholders informed.

If you have any questions regarding the Bank's Risk Appetite Framework, please email HOCComplianceDivision@cbi.ae.