Commercial Bank International P.S.C

Basel III - Pillar 3 Disclosures -31st December 2022

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1. Introduction

This document presents Pillar lll Market Disclosure Report for Commercial Bank International (“CBI” or “the bank”) prepared in accordance with the requirements and guidelines as prescribed by the Central Bank of the UAE (CBUAE) and other clarifications received from time to time along with the Formal Disclosure Policy of the Bank.

The purpose of this report is to inform market participants of the key components, scope and effectiveness of the Banks risk measurement processes, risk profile and capital adequacy.

The Bank has adopted the Standardized Approach for determining the capital requirements for Credit Risk, Market Risk and Operational Risk. This Pillar lll Report provides details on the risk management process, enabling users to gain a clear understanding of the bank's risk appetite in relation to its main activities and all significant risks.

Pillar lll Disclosures 2022

Pillar lll complements the minimum capital requirements and the supervisory review process. It’s aim is to encourage market discipline by developing disclosure requirements which allow market participants to assess specified information on the scope of application of Basel III standards, compliance to minimum capital requirements, particular risk exposures and risk assessment processes. Disclosures consist of both qualitative and quantitative information and are provided at the consolidated level.

As per the CBUAE Basel III capital regulations, minimum capital requirements are monitored at three levels, namely Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital. Additional capital buffers (Capital Conservation Buffer 2.5% and Countercyclical Capital Buffer 0%) introduced are over and above the minimum CET1 requirement of 7%.

In December 2022, CBUAE issued revised standards and guidelines for Capital Adequacy in UAE. The new version to the Standards also includes additional Guidance on the topics of Credit Risk, Market Risk, Operational Risk and ICAAP.

1.1 Basel Regulatory Framework

The Basel Accord framework consists of following three main pillars:

- Pillar I - defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk;
- Pillar II - addresses a Bank’s Internal Capital Adequacy Assessment Process(“ICAAP”) for assessing overall capital adequacy in relation to risks other than Pillar I. Pillar II also introduces the Supervisory Review and Evaluation Process (“SREP”), which is used as a tool to assess the internal capital adequacy of banks; and
- Pillar III - complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy which encourages market discipline and allows market participants to assess specific information.

Verification

The Pillar lll disclosures for the year ended 31st December 2022 have been appropriately reviewed by the management and internal & external audit.

1.2 Group Structure – Information on Subsidiaries

Commercial Bank International P.S.C. (the “Bank”) is a public shareholding company with limited liability incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The registered office of the Bank is at P.O. Box 793, Ras Al-Khaimah. The Bank is listed on the Abu Dhabi Exchange (Ticker “CBI”). The Bank carries on commercial banking activities through its branches in the United Arab Emirates (“the UAE”).

Details of the Group’s subsidiaries and associates at the end of reporting period is as follows:

Name	Principal Activity	Principal place of Business	Place of incorporation	% of Ownership
International Financial Brokerage LLC*	Brokerage	Dubai - the UAE	Dubai - the UAE	99.4
Takamul Real Estate	Real estate	Dubai - the UAE	Dubai - the UAE	100
Al Khaleejiah Property Investments LLC	Real estate	Sharjah - the UAE	Sharjah - the UAE	52.8
Al Caribi Development Limited	Real estate	Antigua and Barbuda	British Virgin Islands	100
CBI Financial Services Limited	SPV	Dubai - the UAE	Cayman Islands	100
CBI Tier 1 Private Ltd	SPV	Dubai - the UAE	Cayman Islands	100
Arzaq Holdings (P.J.S.C.)**	Real estate	Sharjah - the UAE	Sharjah - the UAE	48

Note:

** International Financial Brokerage is a dormant entity, the brokerage operations have been discontinued on 1st July 2018. It is under liquidation.*

** *This associate is accounted for using the equity method in these consolidated financial statements and the net assets of ARZAQ are in deficit position, consequently investment in associate is carried at Nil value.*

The consolidated financial statements incorporate the financial information of the Bank and its subsidiaries International Financial Brokerage LLC (the subsidiary - IFB), Takamul Real Estate Company (the subsidiary - TRE) and other entities mentioned in Table 1 below, collectively referred to as the “Group” as of 31st December 2022.

For the purpose of Pillar III capital adequacy reporting, only the financial subsidiaries are consolidated i.e. IFB is consolidated for Capital Adequacy Reporting. Commercial subsidiaries are excluded from consolidated regulatory reporting and therefore TRE and other Commercial entities are deconsolidated for Regulatory capital reporting.

2. Overview of Risk Management and RWA

2.1 Bank’s Risk Management Approach (OVA)

The primary objective of Enterprise Risk Management is to protect the Banks’ assets from the various risks the Bank is exposed to and maximize shareholders value. 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 Bank is exposed to key risks: credit risk, investment risk, liquidity risk, market risk, operational risk, and other residual risks like Interest Rate Risk in the Banking Book (IRRBB), Strategic Risk, Reputational Risk, Macro-economic Risk, Sector and Name Concentration Risk along with Sharia’h non-compliance risk. Special units to handle Fraud Prevention & Monitoring and Information Security are also established under Risk Group. The Enterprise Risk Management (ERM) is handled by experienced team of risk professionals, under the leadership of Chief Risk Officer.

A well-defined risk management framework is in place with the overall responsibility of risk management vested with the Board of Directors managed through the Board Risk Committee. The Board of Directors approve the Bank's risk management policies which defines the Bank's risk strategy, which is backed by appropriate qualitative and quantitative parameters, delegation of authorities to the Executive Committee of the Board, Internal Credit Committee and Executives to approve financing exposures. The policies and processes for management of risks have proved to be effective. The risk management framework compliments the International Best Practices, Basel Committee, and Central Bank of UAE guidelines.

The role of the Risk Management Department is to develop and implement the risk policies associated specifically with both quantifiable and non-quantifiable risks arising from the activities of the Bank and manage the day-to-day risks. The risk management function along with the internal audit function of the Bank provides independent assurance that all types of risk are being managed in accordance with the policies set by the Board of Directors. Independent review of the risk management framework is carried out by the Internal Audit.

The risk environment in which the Bank operates changes continuously, caused by a range of factors, from the transactional level to macroeconomic events. The risk environment therefore requires continuous monitoring and assessment. Initiatives under the Bank's Enterprise Risk Management program have been a major catalyst and contributor to the enhancement of risk management practices within the Bank. The risk management framework institutionalized across the Bank is designed to meet these challenges as part of Basel program.

The Bank's Risk Management Principles

Bank's risk management principles define the accountability, independence, structure, and scope of Risk Management.

a. The risk management approach is premised on three lines of defense – risk taking business units, risk control units like Risk, Compliance and Internal Audit.

b. The risk-taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of risk. Complementing this is Internal Audit which provides independent assurance of the effectiveness of the risk management approach.

c. All major credit proposals of the bank prepared by the credit analyst pool (reviewed and recommended by Corporate Credit) are approved/recommended by Internal Credit Committee (ICC), Board Credit Committee (BCC), and the Board of Directors based on an established credit approval authority matrix. The ICC comprises designated members of the Bank's management and is chaired by the Chief Executive Officer (CEO). ICC comprise of three members; CEO, CCO & Head of Wholesale Banking Group (HWBG). Chief Risk Officer (CRO) is a permanent invitee (a non-voting attendee) to ICC meetings. The CRO assumes the responsibility of providing independent views of the credit applications discussed in ICC meeting. In addition, Enterprise Risk Management (ERM) provides risk oversight and consultancy to all lines of business for the major risk categories including credit risk, market risk, liquidity risk, operational risk and other industry-specific risks that are discussed under ICAAP framework.

d. ERM ensures that the core risk policies of the Bank are consistent and current, sets the risk tolerance level through the approved Risk Appetite Framework (RAF) & Policy. Also, ERM is responsible for the execution of various risk policies and related business decisions empowered by the Board.

e. ERM is functionally and organizationally independent of the business units and other risk-taking units within CBI.

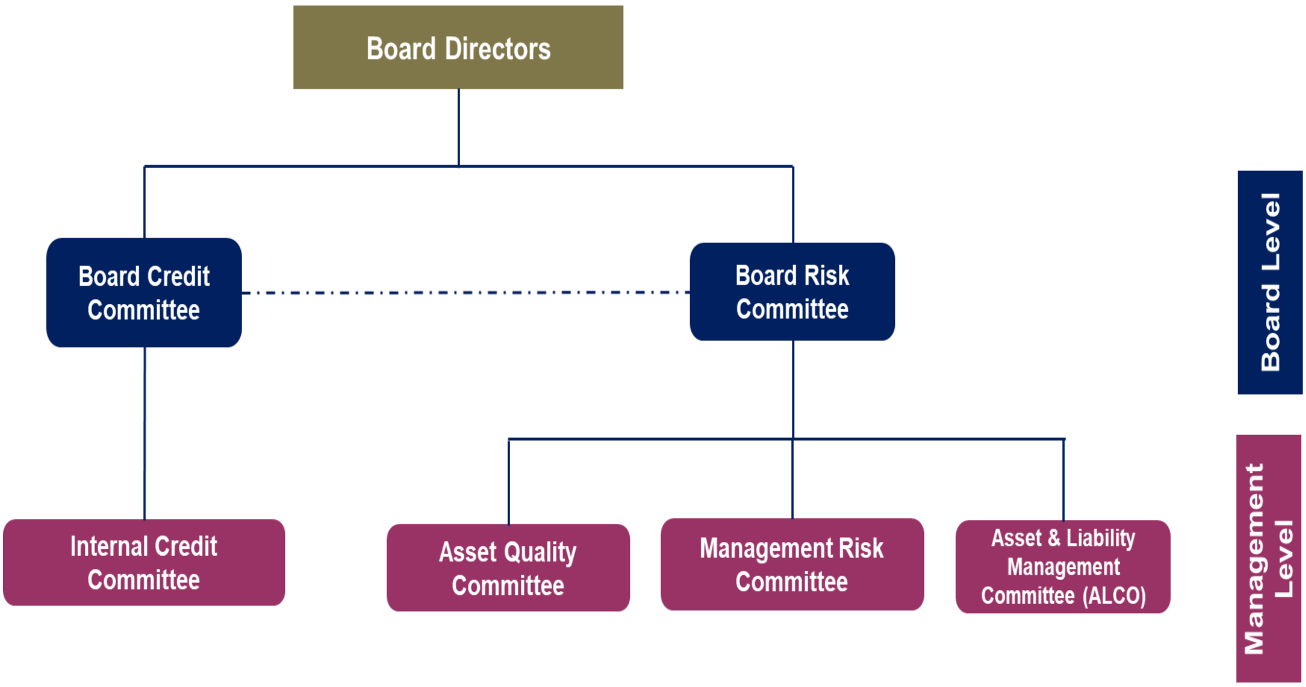
f. CBI's Board, through the ALCO, BRC and EXCOM, maintains overall responsibility for risk oversight within the Bank.

Risk Group efforts have been focused on establishing a strong risk governance. Risk communication was enhanced, and we are moving from an analytical function to a strategically oriented activity.

Board and senior management are actively involved in firm-wide risk oversight by integrating risk management activities within the organization. Through embedding risk management within different business units and having in place appropriate and effective policies and procedures, Board and senior management ensure that the employees who are in decision making positions not only understand the underlying risk but also take necessary actions to minimize the risks.

Risk Group is responsible for generating and submitting timely and accurate risk reports to senior management. The underlying risks in different areas are analyzed and presented to the senior management for making business decisions. These reports cover analysis on capital management, concentration in terms of products, business lines, counterparties etc., and non-performing accounts. Furthermore, it underlines the areas which require attention and also recommends the changes, if required, in the policies or procedures.

CBI's Risk Governance model is as follows;



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

Credit policy of the bank has been prepared with the broad objective of meeting the following goals:

- Adhere to the guidelines or policies pronounced by CBUAE; and
- 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 uses risk rating models and systems for assessing the credit worthiness of borrowers. This assessment considers the following factors:

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

The Bank evaluates industry risk by considering:

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

CBI's ECL (Expected Credit Loss) calculation methodology and process based on IFRS9 standards and related disclosures are available in Annual Financial Report 2022.

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. The bank currently does not hold any equity trading positions.

Operational Risk

The Bank has an independent Operational Risk Department under Chief Risk Officer which is tasked with monitoring and controlling the Operational Risks of the Bank. Functions of this department are guided by the Operational Risk Policy and Framework. To institutionalize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is established as part of ERM program. The Bank has implemented Business Continuity and Disaster

Recovery program to reduce the potential Operational risk.

Asset and Liability Management Committee

Asset and Liability Management Committee (ALCO) has been established to provide oversight of asset and liability management within the Bank, ensuring the following:

- Better positioning of Bank's balance sheet in the light of current market trends, opportunities and challenges
- Adequate planning, directing and controlling of the flow, level, mix, cost and yield of Bank's assets and liabilities to ensure liquidity and profit rate risk remain within the approved risk appetite
- Prudent and proactive management of Bank's balance sheet to safeguard from any adverse market movements including liquidity constraints, shift in credit scenarios and capital adequacy

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.

The Bank's ICAAP model is aligned with the Bank's strategy and addresses capital planning, risk appetite, assessment of all types of material risks, testing the capital requirement under different stress scenarios, capital required for covering all material risks due to current as well as prospective business profile and internal organization and processes to manage the above on an on-going basis.

The ICAAP framework determines the level of capital required to support the Bank's current and projected activities for capital under normal and stressed conditions. The ICAAP report is produced on an annual basis and is duly approved by the Board Risk Committee (BRC) as well as the Sharia's Supervisory Board and the Board of Directors.

a. Comprehensive Risk Assessment under ICAAP Framework

Under the revised ICAAP methodology, the following risk types are identified and measured:

- Risks captured under Pillar 1 of BASEL III (credit risk, market risk and operational risk);
- Risks not fully captured under Pillar 1 of BASEL III (e.g., Residual Risks);
- Risks not considered by Pillar 1 of BASEL III (e.g., Interest Rate Risk in the Banking Book (IRRBB), Liquidity Risk, Business/Strategic Risk, Reputational Risk, Macroeconomic Risk and Concentration Risk-Name and Economic Sectors); and
- External factors, including changes in economic environment and regulations.

b. Assessment of Pillar 1 and Pillar 2 Risks under BASEL III regime

The bank quantifies its risks using methodologies that have been reasonably tested and deemed to be accepted in the industry as per industry best practices.

Where risks are not easily quantified, due to the lack of commonly accepted risk measurement techniques, expert judgment is used to determine the size and materiality of the risk. The Bank's

ICAAP then focuses on the qualitative controls in managing such material, non-quantifiable risks within the established governance framework of the bank. These qualitative measures include the following:

- Adequate governance process through BRC, EXCOM and the Board of Directors;
- Adequate systems, procedures and internal controls;
- Effective risk mitigation strategies; and
- Regular monitoring and reporting through various committees and management forums.

c. Stress Testing

The Bank's stress testing program is revamped, and a robust and comprehensive model is put in place for performing the required stress testing exercise. During the year, the Board approved Stress Testing Framework and Policy was put in place. It is embedded in the risk and capital management process. The program serves as a forward-looking risk and capital management tool to understand the Bank's risk profile under extreme but plausible conditions. Such conditions may arise from the macroeconomic, strategic, political, and business environmental factors.

Under the CBI Stress Testing Policy and Framework, approved by the Board and updated during 2022, the potential unfavorable effects of stress scenarios on the Bank's profitability, asset quality, liquidity, risk weighted assets and capital adequacy are modelled. At CBI, the Stress Testing methodology is under constant review by Chief Risk Officer (CRO) to reflect the prevailing regulatory and global best practices along with reflecting the macroeconomic scenarios and is capable of translating the potential risks faced by the Bank into meaningful results.

Specifically, the stress testing program is designed with an objective to assess the resilience, solvency, liquidity, and profitability of the Bank against various stressed events. Depending on the nature of the risk factor, the impact of the stress testing exercise where applicable, are measured on the following indicators of the Bank:

- Assets quality – increase/decrease in non-performing assets measured in terms of ratio to financing assets;
- Profitability – increase/decrease in the accounting profit & loss.
- Capital adequacy – measured in terms of changes in total amount of capital and the Capital Adequacy Ratio (CAR);
- Liquidity position – measured in terms of changes in key liquidity indicators. Liquidity reports are presented to ALCO, Management Risk Committee and Board Risk Committee.

CBI also performed the bottom-up stress testing as required by the CBUAE; the exercise has been validated by external expert. The report was reviewed and accepted by CBUAE.

2.2 Key metrics at consolidated group level (KM1)

AED in 000s

Amount in 000's		Dec-22	Sep-22	Jun-22	Mar-22	Dec-21
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	1,751,637	1,521,995	1,557,762	1,630,115	1,596,425
1a	Fully loaded ECL accounting model	1,686,607	1,472,495	1,531,148	1,591,824	1,594,279
2	Tier 1	2,210,762	1,981,120	2,016,887	2,089,240	2,055,550
2a	Fully loaded ECL accounting model Tier 1	2,145,732	1,931,620	1,990,273	2,050,949	2,053,404

3	Total capital	2,400,825	2,163,063	2,194,060	2,261,755	2,230,609
3a	Fully loaded ECL accounting model total capital	2,335,795	2,113,563	2,167,446	2,223,464	2,224,479
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	16,665,027	16,013,493	15,543,694	15,234,785	15,062,151
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	10.51%	9.50%	10.02%	10.70%	10.60%
5a	Fully loaded ECL accounting model CET1 (%)	10.12%	9.20%	9.85%	10.45%	10.58%
6	Tier 1 ratio (%)	13.27%	12.37%	12.98%	13.71%	13.65%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	12.88%	12.06%	12.80%	13.46%	13.63%
7	Total capital ratio (%)	14.41%	13.51%	14.12%	14.85%	14.78%
7a	Fully loaded ECL accounting model total capital ratio (%)	14.02%	13.20%	13.94%	14.59%	14.77%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	3.51%	2.50%	3.02%	3.70%	3.60%
	Leverage Ratio					
13	Total leverage ratio measure	24,903,109	24,849,168	23,382,773	23,966,266	23,849,479
14	Leverage ratio (%) (row 2/row 13)	8.88%	7.97%	8.63%	8.72%	8.62%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	8.62%	7.77%	8.51%	8.56%	8.61%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	8.88%	7.97%	8.63%	8.72%	8.62%
	Liquidity Coverage Ratio					
15	Total HQLA					
16	Total net cash outflow					
17	LCR ratio (%)					
	Net Stable Funding Ratio					
18	Total available stable funding					
19	Total required stable funding					
20	NSFR ratio (%)					
	ELAR					
21	Total HQLA	3,758,184	2,788,500	2,409,294	3,703,932	3,870,104
22	Total liabilities	18,425,712	17,965,362	16,450,031	18,227,926	18,097,779
23	Eligible Liquid Assets Ratio (ELAR) (%)	20.40%	15.52%	14.65%	20.32%	21.38%
	ASRR					
24	Total available stable funding	14,893,934	13,832,162	12,812,489	14,262,416	13,808,402
25	Total Advances	13,734,366	13,457,341	12,458,212	12,267,181	12,208,237
26	Advances to Stable Resources Ratio (%)	92.21%	97.29%	97.23%	86.01%	88.41%

2.3 Overview of RWA (OV1)

Amount in 000's		RWA		Minimum capital requirements
		Dec-22	Sep-22	Dec-22
1	Credit risk (excluding counterparty credit risk)	15,181,216	14,533,551	1,594,028
2	Of which: standardized approach (SA)	15,181,216	14,533,551	1,594,028
3	*Of which: foundation internal ratings-based (F-IRB) approach*			
4	*Of which: supervisory slotting approach*			
5	*Of which: advanced internal ratings-based (A-IRB) approach*			
6	Counterparty credit risk (CCR)	23,786	21,865	2,498
7	Of which: standardized approach for counterparty credit risk	23,786	21,865	2,498
8	*Of which: Internal Model Method (IMM)*			
9	*Of which: other CCR*			
10	*Credit valuation adjustment (CVA)*			
11	*Equity positions under the simple risk weight approach*			
12	Equity investments in funds - look-through approach			
13	Equity investments in funds - mandate-based approach			
14	Equity investments in funds - fallback approach			
15	Settlement risk			
16	Securitization exposures in the banking book			
17	*Of which: securitization internal ratings-based approach (SEC-IRBA)*			
18	Of which: securitization external ratings-based approach (SEC-ERBA)			
19	Of which: securitization standardized approach (SEC-SA)			
20	Market risk	284,794	282,845	29,903
21	Of which: standardized approach (SA)	284,794	282,845	29,903
22	*Of which: internal models approach (IMA)*			
23	Operational risk	1,175,231	1,175,231	123,399
24	*Amounts below thresholds for deduction (subject to 250% risk weight)*			
25	*Floor adjustment*			
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**16,665,027**	**16,013,493**	**1,749,828**

Note: Minimum capital requirements are calculated at 10.50%

3. Linkages between Financial Statements and Regulatory Exposures

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

Amount in 000's	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with the Central Banks	2,632,565	2,632,565	2,632,565	-	-	-	-
Derivative financial assets	6,604	6,604	-	6,604	-	-	-
Deposits and balances due from banks	458,448	458,448	458,448	-	-	-	-
Loans and advances to customers	12,410,433	12,410,433	12,410,433	-	-	-	-
Islamic financing and investing assets	513,699	513,699	513,699	-	-	-	-
Financial assets at (FVTOCI)	45,738	104,332	104,332	-	-	-	-
Financial assets at (FVTPL)	218,271	-	-	-	-	-	-
Financial assets measured at amortized cost	2,082,977	2,082,977	2,082,977	-	-	-	-
Property inventory	500,660	338,241	338,241	-	-	-	-
Receivables and other assets	2,131,839	2,225,453	2,225,453	-	-	-	-
Investment properties	26,022	13,314	13,314	-	-	-	-
Intangible assets	28,601	28,601	-	-	-	-	28,601
Property and equipment	110,682	110,682	110,682	-	-	-	-
Total Assets	**21,166,539**	**20,925,349**	**20,890,144**	**6,604**	**-**	**-**	**28,601**
Liabilities							
Balance due to the Central Bank of the UAE	(1,748)	(1,748)	-	-	-	-	-
Derivative financial liability	(6,084)	(6,084)	-	-	-	-	-
Deposits and balances due to banks	(4,014,531)	(4,014,531)	-	-	-	-	-
Customers' deposits	(11,360,543)	(11,360,791)	-	-	-	-	-
Islamic customers' deposits	(839,282)	(839,282)	-	-	-	-	-
Payables and other liabilities	(2,245,718)	(2,244,377)	-	-	-	-	-
Liabilities of assets held for sale	-	-	-	-	-	-	-
Total Liabilities	**(18,467,906)**	**(18,466,813)**	**-**	**-**	**-**	**-**	**-**

3.2 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI2)

	Amount in 000's	Total	Items subject to:				
			Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework	Not subject to capital requirements or subject to deduction from capital
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	20,925,349	20,890,144	-	6,604	-	28,601
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	20,925,349	20,890,144	-	6,604	-	28,601
4	Off-balance sheet amounts	4,414,638	4,414,638	-	-	-	-
5	*Differences in valuations*	-	-	-	-	-	-
6	*Differences due to different netting rules, other than those already included in row 2*	-	-	-	-	-	-
7	*Differences due to consideration of provisions*	-	-	-	-	-	-
8	*Differences due to prudential filters*	-	-	-	-	-	-
9	Exposure amounts considered for regulatory purposes	25,339,987	25,304,782	-	6,604	-	28,601

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

The variance is due to the difference in scope of consolidation for accounting and regulatory purposes. For regulatory purposes, only financial entities are being considered for consolidation and hence the line items exclude the balances held with non-financial subsidiaries.

4. Prudential Valuation Adjustments (PV1)

Not Applicable

5. Composition of Capital

5.1 Composition of Regulatory Capital (CC1)

Amount in 000's		Amounts
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	1,737,383
2	Retained earnings	(171,248)
3	Accumulated other comprehensive income (and other reserves)	214,103
4	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*	-
5	Common share capital issued by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory deductions**	**1,780,238**
	Common Equity Tier 1 capital regulatory adjustments	
7	Prudent valuation adjustments	-
8	Goodwill (net of related tax liability)	(28,601)
9	Other intangibles including mortgage servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
11	Cash flow hedge reserve	-
12	Securitization gain on sale	-
13	Gains and losses due to changes in own credit risk on fair valued liabilities	-
14	Defined benefit pension fund net assets	-
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
20	Amount exceeding 15% threshold	-
21	Of which: significant investments in the common stock of financials	-
22	Of which: deferred tax assets arising from temporary differences	-
23	CBUAE specific regulatory adjustments	-
24	**Total regulatory adjustments to Common Equity Tier 1**	(28,601)
25	**Common Equity Tier 1 capital (CET1)**	1,751,637
	Additional Tier 1 capital: instruments	
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
27	OF which: classified as equity under applicable accounting standards	-
28	Of which: classified as liabilities under applicable accounting standards	-
29	*Directly issued capital instruments subject to phase-out from additional Tier 1*	-
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-
31	*Of which: instruments issued by subsidiaries subject to phase-out*	-
32	Additional Tier 1 capital before regulatory adjustments	-

	Additional Tier 1 capital: regulatory adjustments	
33	Investments in own additional Tier 1 instruments	-
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
36	CBUAE specific regulatory adjustments	-
37	Total regulatory adjustments to additional Tier 1 capital	-
38	**Additional Tier 1 capital (AT1)**	459,125
39	**Tier 1 capital (T1= CET1 + AT1)**	2,210,762
	Tier 2 capital: instruments and provisions	
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
41	*Directly issued capital instruments subject to phase-out from Tier 2*	-
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
43	*Of which: instruments issued by subsidiaries subject to phase-out*	-
44	Provisions	190,063
45	**Tier 2 capital before regulatory adjustments**	190,063
	Tier 2 capital: regulatory adjustments	
46	Investments in own Tier 2 instruments	-
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
49	CBUAE specific regulatory adjustments	-
50	**Total regulatory adjustments to Tier 2 capital**	-
51	**Tier 2 capital (T2)**	190,063
52	**Total regulatory capital (TC = T1 + T2)**	2,400,825
53	**Total risk-weighted assets**	16,665,027
	Capital ratios and buffers	
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	10.51%
55	**Tier 1 (as a percentage of risk-weighted assets)**	13.27%
56	**Total capital (as a percentage of risk-weighted assets)**	14.41%
57	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	2.50%
58	**Of which: capital conservation buffer requirement**	2.50%
59	**Of which: bank-specific countercyclical buffer requirement**	0.00%
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	0.00%
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	10.50%
	The CBUAE Minimum Capital Requirement	
62	Common Equity Tier 1 minimum ratio	7.00%
63	Tier 1 minimum ratio	8.50%
64	Total capital minimum ratio	10.50%
	Amounts below the thresholds for deduction (before risk weighting)	
[redacted]		
66	Significant investments in common stock of financial entities	0

[redacted]		
68	Deferred tax assets arising from temporary differences (net of related tax liability)	0
	Applicable caps on the inclusion of provisions in Tier 2	
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	228,075
70	Cap on inclusion of provisions in Tier 2 under standardized approach	190,063
[redacted]		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
73	*Current cap on CET1 instruments subject to phase-out arrangements*	0
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	0
75	*Current cap on AT1 instruments subject to phase-out arrangements*	0
76	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	0
77	*Current cap on T2 instruments subject to phase-out arrangements*	0
78	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	0

5.2 Reconciliation of Regulatory Capital to Balance Sheet (CC2)

Amount in 000's	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with the Central Banks	2,632,565	2,632,565
Derivative financial assets	6,604	6,604
Deposits and balances due from banks	458,448	458,448
Loans and advances to customers	12,410,433	12,410,433
Islamic financing and investing assets	513,699	513,699
Financial assets at (FVTOCI)	45,738	104,332
Financial assets at (FVTPL)	218,271	-
Financial assets measured at amortized cost	2,082,977	2,082,977
Property inventory	500,660	338,241
Receivables and other assets	2,131,839	2,225,453
Investment properties	26,022	13,314
Intangible assets	28,601	28,601
Property and equipment	110,682	110,682
Total assets	**21,166,539**	**20,925,349**
Liabilities		
Balance due to the Central Bank of the UAE	(1,748)	(1,748)
Derivative financial liability	(6,084)	(6,084)
Deposits and balances due to banks	(4,014,531)	(4,014,531)
Customers' deposits	(11,360,543)	(11,360,791)
Islamic customers' deposits	(839,282)	(839,282)
Payables and other liabilities	(2,245,718)	(2,244,377)
Liabilities of assets held for sale	-	-

Total liabilities	**(18,467,906)**	**(18,466,813)**
Shareholders' equity		
Share capital	(1,737,383)	(1,737,383)
Tier 1 Capital	(459,125)	(459,125)
Statutory reserve	(272,146)	(269,376)
General reserve	(3,368)	(3,368)
Properties revaluation reserve	-	-
Investments revaluation reserve	64,805	58,954
Specific provision reserve	(284,203)	(284,203)
General provision reserve	-	-
Accumulated loss / (Retained earnings)	96,124	236,278
Non-controlling interests	(103,337)	(313)
Total equity	**(2,698,633)**	**(2,458,536)**

5.3 Main Features of Regulatory Capital Instruments (CCA)

		Quantitative / qualitative information	Common Equity
1	Issuer	CBI TIER 1 PRIVATE LIMITED	CBI
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS1339766476	NA
3	Governing law(s) of the instrument	English Law	UAE Law
	Regulatory treatment		
4	Transitional arrangement rules (i.e. grandfathering)	Grandfathered at 100% eligibility for 10 years commencing from 1-Jan-2018 until 31-Dec-2027	NA
5	Post-transitional arrangement rules (i.e. grandfathering)	NA	NA
6	Eligible at solo/group/group and solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Ordinary shares
8	Amount recognized in regulatory capital (currency in millions, as of most recent reporting date)	AED 459.125 Mn	AED 1,737.383 Mn
9	Nominal amount of instrument	AED 459.125 Mn	AED 1,737.383 Mn
9a	Issue price	AED 459.125 Mn	AED 1,737.383 Mn
9b	Redemption price	AED 459.125 Mn	AED 1,737.383 Mn
10	Accounting classification	AT-1	Common Equity/ Ordinary shares
11	Original date of issuance	23-Dec-15	Multiple dates
12	Perpetual or dated	Perpetual	NA
13	Original maturity date	NA	NA
14	Issuer call subject to prior supervisory approval	Yes	NA
15	Optional call date, contingent call dates and redemption amount	on or after Dec-2021, redemption amount 100%	NA
16	Subsequent call dates, if applicable	First Call Date and every interest payment date thereafter	NA
	Coupons / dividends	Coupon	Dividend
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	5.993%	NA
19	Existence of a dividend stopper	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretionary	Full discretionary

20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretionary	Full discretionary
21	Existence of step-up or other incentive to redeem	NA	NA
22	Non-cumulative or cumulative	Non-Cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Cumulative	Non-Cumulative
24	Write-down feature	Yes	Yes
25	If write-down, write-down trigger(s)	At the point of non-viability	At the point of non-viability
26	If write-down, full or partial	Full	Full
27	If write-down, permanent or temporary	Permanent	Permanent
28	If temporary write-own, description of writeup mechanism	NA	NA
28a	Type of subordination	NA	NA
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	NA	NA
30	Non-compliant transitioned features	NA	NA
31	If yes, specify non-compliant features	NA	NA

Note: Details of Additional Tier 1 Capital Instruments are reported in the above table.

6. Macroprudential Supervisory Measures (CCyB1)

CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

Not applicable. There are no credit exposures relevant for the calculation of the countercyclical buffer.

7. Leverage Ratio

7.1 Summary Comparison of Accounting Assets vs Leverage Ratio Exposure Measure (LR1)

Amount in 000's		Dec-22
1	Total consolidated assets as per published financial statements	21,166,539
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(241,190)
3	Adjustment for securitized exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(28,601)
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	54,410
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,951,950
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	-
13	**Leverage ratio exposure measure**	**24,903,109**

7.2 Leverage Ratio Common Disclosure Template (LR2)

Amount in 000's		Dec-22	Sep-22
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	20,925,349	20,240,851
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognized as an asset)	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	(28,601)	(31,760)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	20,896,748	20,209,091
Derivative exposures			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	30,701	30,612
9	Add-on amounts for PFE associated with all derivatives transactions	8,164	4,986
10	(Exempted CCP leg of client-cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivative exposures (sum of rows 8 to 12)**	54,410	49,837
Securities financing transactions			
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	6,164,178	6,690,123
20	(Adjustments for conversion to credit equivalent amounts)	(2,212,228)	(2,099,883)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	**Off-balance sheet items (sum of rows 19 to 21)**	3,951,950	4,590,240
Capital and total exposures			
23	**Tier 1 capital**	2,210,762	1,981,120
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	24,903,109	24,849,168
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	8.88%	7.97%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%
27	**Applicable leverage buffers**	5.88%	4.97%

8. Liquidity Risk

8.1 Liquidity Risk Management (LIQA)

The objective of liquidity risk management is to ensure that all maturing obligations and commitments can be paid fully promptly. Business strategy and funding plans cannot be formulated in isolation from one another. A business strategy that shows insufficient appreciation of liquidity risk is vulnerable to potential funding problems.

Liquidity risk originates from 2 areas, these are:

a. Balance sheet size and structure

b. Mismatch in maturities of sources and uses (liquidity gaps)

Liquidity gaps are subject to formal monitoring and control through the mechanism of the Maturity Gap report. Also, both balance sheet size and structure and standby liquidity commitments are monitored regularly, and have formal benchmarks applied to them.

A Risk appetite framework has been put in place by the bank including limits for liquidity risk and a tolerance mechanism for liquidity risk indicators.

Funding Strategy

The Bank has adopted a conservative strategy to manage its liquidity by maintaining a buffer over required level of liquidity as measured by the regulatory liquidity ratios of ELAR, ASRR and CBUAE ratios such as LCR and NSFR. Treasury in conjunction with ALCO conducts annual business planning / budgeting exercise, analyses overall funding requirements for the coming year and provides funding strategy to ALCO. The funding strategy considers normal projected flows as well as the potential buffers for possible stress scenarios.

Funding liquidity and asset liquidity which are two primary elements of liquidity risk management that are paid special attention to, in order to ensure timely and sufficient availability of liquid funds.

Liquidity Risk Mitigation

Liquidity risk is mitigated using following measures and indicators:

a. Liquidity Ratios
A set on standard liquidity ratios have been established for measuring the structural liquidity of the balance sheet. as included in Price and Liquidity Risk Limit document. Market Risk Management (MRM) is required to calculate these ratios at least monthly. MRM will establish targets for each of these ratios which are then approved by ALCO and MRC as part of the Price and Liquidity Risk Limit Document. Liquidity Ratio breaches are reported to CRO/along with the ALCO.

b. Market Triggers
Market triggers are external market events that may impact market liquidity and can include changes in interest rate spreads, commercial paper yields and competitor credit ratings. CBI monitors market triggers which are approved by the ALCO and MRC as part of Price and Liquidity Risk Limits document. ALCO is responsible to address the situation of market triggers and shall document any decisions made or actions taken. Market risk department will monitor these market triggers and report the same to ALCO.

Stress Test

Liquidity Stress Testing is performed to quantify the likely impact of an event/s on the balance sheet, and to ascertain what incremental funds shall be required under defined set of stress scenarios.

Contingency Funding Plan

The bank maintains its policy to always provide adequate liquidity in order to be in a position, in the normal course of business to meet all obligations, to repay depositors and to fulfil commitments. However, despite careful management of the liquidity position, a crisis can happen due to either unforeseen events or circumstances beyond the Bank's control. In order to meet such a situation Liquidity Contingency Funding Plan is prepared to mitigate the effects on Bank's liquidity. The CFP plan is reviewed by ALCO, MRC and BRC on a yearly basis. Any changes to the policy can be approved by ALCO with subsequent intimation to the MRC/BRC.

Liquidity Maturity Gap

Amount in 000's	Less than 3 months	3 to 6 months	6 to 12 months	More than 1 year	No fixed Maturity	Total
Non-derivative financial assets						
Cash and balances with the Central Banks	2,632,565	-	-	-	-	2,632,565
Deposits and balances due from banks	61,612	145,843	250,992	-	-	458,448
Loans and advances to customers including Islamic financing and investing assets	976,500	220,737	482,182	8,412,412	2,832,301	12,924,132
Receivables and other assets	867,872	525,320	794,506	610,107	-	2,797,804
Investment securities at fair value	-	-	-	-	264,009	264,009
Investment securities measured at amortized cost	49,802	148,300	87,209	1,797,666	-	2,082,977
	4,588,352	**1,040,200**	**1,614,890**	**10,820,184**	**3,096,310**	**21,159,935**
Derivative financial assets	0	77	-	6,527		6,604
	4,588,352	**1,040,277**	**1,614,890**	**10,826,711**	**3,096,310**	**21,166,539**
Non-derivative financial liabilities						
Balance due to the Central Banks	1,748	-	-	-	-	1,748
Deposits and balances due to banks	2,587,282	146,904	321,288	959,058	-	4,014,531
Customers' deposits including Islamic customers' deposits	4,565,416	1,677,464	2,918,364	483,516	2,555,065	12,199,825
Payables and other liabilities	873,400	554,338	813,152	4,829	-	2,245,718
	8,027,846	**2,378,706**	**4,052,803**	**1,447,402**	**2,555,065**	**18,461,822**
Derivative financial liabilities	73	19	77	5,915	-	6,084
Contingent liabilities (letter of credit and letter of guarantees)	2,168,075	394,928	308,171	67,084	-	2,938,257
Loan commitments	547,576	158,962	229,299	540,544	-	1,476,380
	10,743,570	**2,932,615**	**4,590,350**	**2,060,944**	**2,555,065**	**22,882,544**
Liquidity gap	**- 6,155,218**	**-1,892,338**	**-2,975,460**	**8,765,767**	**541,244**	**- 1,716,005**

8.2 Liquidity Coverage Ratio (LIQ1)

Not Applicable

8.3 Net Stable Funding Ratio (LIQ2)

Not Applicable

8.4 Eligible Liquid Assets Ratio (ELAR)

1	High Quality Liquid Assets (AED in 000's)	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	2,632,561	
1.2	UAE Federal Government Bonds and Sukuks	432,215	
	Sub Total (1.1 to 1.2)	3,064,776	3,064,776
1.3	UAE local governments publicly traded debt securities	419,901	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub Total (1.3 to 1.4)	419,901	419,901
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	273,507	273,507
1.6	**Total**	**3,758,184**	**3,758,184**
2	**Total liabilities**		**18,425,712**
3	**Eligible Liquid Assets Ratio (ELAR)**		**20.4%**

8.5 Advances to Stables Resource Ratio (ASRR)

AED in 000's		Items	Dec-22
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	13,002,135
	1.2	Lending to non-banking financial institutions	125,049
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	203,196
	1.4	Interbank Placements	403,986
	1.5	**Total Advances**	**13,734,366**
2		**Calculation of Net Stable Resources**	
	2.1	Total capital + general provisions	2,704,840
		Deduct:	
	2.1.1	Goodwill and other intangible assets	28,602
	2.1.2	Fixed Assets	448,923
	2.1.3	Funds allocated to branches abroad	0
	2.1.5	Unquoted Investments	17,374
	2.1.6	Investment in subsidiaries, associates and affiliates	91,806
	2.1.7	**Total deduction**	**586,705**
	2.2	**Net Free Capital Funds**	**2,118,135**
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	1,852,595
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	235,862
	2.3.5	Customer Deposits	10,687,342
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	**Total other stable resources**	**12,775,799**
	2.4	**Total Stable Resources (2.2+2.3.7)**	**14,893,934**
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	**92.21**

9. Credit Risk

9.1 General Qualitative Information about Credit Risk (CRA)

a. How the business model translates into the components of the bank's credit risk profile

The book is dominated by lending portfolio which brings a significant amount of credit risk to our books, however the same is being carefully managed.

The approvals for lending in case of corporates are delegated to the Chief Credit Officer (CCO), Internal Credit Committee, Board Credit Committee and Board based on credit approval matrix. The credit/financing assessment process set-up reflects a largely centralized approach of lending approval, except in case of retail financing to promote accountability, consistency and efficiency.

Business units, as the first line of defence, have the primary responsibility for the establishment, maintenance and revisions of financing exposures. Credit as well as Risk Management Division as the second line of defence, is responsible for independent review of loan review mechanism. Internal Audit as the third line of defence, does an independent audit of the credit under-writing process and makes sure all required checks and balances are in place. Finally, credit Administration department under CCO is responsible for the control and administration function.

b. Criteria and approach used for defining credit risk management policy and for setting credit risk limits

A structured risk management framework has been established to ensure that the Bank business strategy and operations are linked to its risk management objectives. The overall risk strategy is complemented by appropriate financing limit structure management through Board approved Risk Appetite Framework (RAF) as well as Credit Policy. The Bank uses a Board approved RAF for the management of credit/financing concentration risk comprising of the following:

- Counterparty limits
- Industry limits to monitor exposures by industry
- Country limits to monitor exposures by geographic locations
- Name Concentrations

Overall exposures are evaluated to ensure broad diversification of financing risk. RAF limits and actual levels of exposure are regularly reviewed by the Risk Management Division, Management Risk Committee and Board Risk Committee. Credit/financing policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review.

c. Structure and organization of the credit risk management and control function

All corporate financing proposals are reviewed by the credit risk department under CCO prior to its approval by the relevant sanctioning authorities. With respect to retail financing, Head of Retail Credit Risk and CCO/CEO have the final approving authority.

The credit/financing assessment process has been divided into several phases with clearly defined tasks and responsibilities. The set-up reflects a largely centralized approach of lending approval, except in case of retail financing to promote accountability, consistency and efficiency. Prior to the approval of a financing proposal, a detailed credit risk assessment is undertaken which includes an analysis of the obligor’s financial condition, market position, business environment and quality of management. The risk assessment includes generating an internal Financing Risk rating that weighs the credit/financing approval decision and the terms and conditions of the transaction.

Credit analytics reporting is in place to enable monitoring of corporate and retail financing facilities. For example – monthly overdue report is reviewed by Remedial and Collections department, a report on exposure by sectors is prepared to analyse the concentration risk, a report on segment exposure is also prepared etc.,

d. Relationships between the credit risk management, risk control, compliance and internal audit functions

The Group's Asset Quality Committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, which is based on an approved risk appetite framework, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

Compliance team ensures that internal as well as central bank's guidelines are complied with – process for KYC and AML, dealing with PEPs and related parties etc,

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

e. Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

Content of the reporting on credit risk exposure and on credit risk management function to the senior management includes, but not limited to, the following: credit concentrations reports by name, sector and geography, watch list exposures, non-performing exposures, corporate overdue exposure reports, single obligor limit (SOL), ECL stage movement report, restructured and renegotiated exposure reports, write-offs, reports on recoveries etc

Reports are presented to various committees (Management Risk Committee, Board Risk

Committee, Asset Quality Committee and the Board of Directors) on a regular basis.

9.2 Credit Quality of Assets (CR1)

AED in 000's		Gross carrying values of		Allowances/ Impairments (c)	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures (a)	Non-defaulted exposures (b)		Allocated in regulatory category of Specific (d)	Allocated in regulatory category of General (e)	
1	Loans	2,269,432	11,291,817	637,297	414,032	223,265	12,923,952
2	Debt securities	-	2,115,877	11,025	-	11,025	2,104,852
3	Off-balance sheet exposures	268,304	5,895,874	43,049	20,221	22,828	6,121,129
4	**Total**	**2,537,736**	**19,303,569**	**691,372**	**434,253**	**257,118**	**21,149,933**

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

AED in 000's		Dec-22
1	**Defaulted loans and debt securities at the end of the previous reporting period (30 Jun 2022)**	2,474,281
2	Loans and debt securities that have defaulted since the last reporting period	64,251
3	Returned to non-default status	(21,429)
4	Amounts written off	(5,409)
5	Other changes	26,041
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5) (31 Dec 2022)**	**2,537,736**

9.4 Additional disclosure related to the credit quality of assets (CRB)

Qualitative Disclosures

(a) The scope and definitions of 'past due' and 'impaired' exposures for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

The bank considers all the exposures that are past due >90 days as 'Default' for both accounting and regulatory purposes.

When assessing if the borrower is unlikely to pay its credit obligation, the Group considers both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in wholesale lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis.

(b) The extent of past-due exposures (>90 days) that are not considered to be impaired and the reasons for this.

Bank may consider not downgrading an account to NPL on case-to-case basis based on the nature of the account and Bank's judgement on financial and non-financial factors with reasonable anticipation of fund being received through identified cash-flows. Conversely, the bank may downgrade the account before 90 days due to a material adverse change in the borrower's position; for group accounts where cross-default clauses are applicable, a downgrade in one account to NPL will automatically result in downgrading the other group account and classifying the same as an NPL although the facilities under that account may be regular. Provisioning will be in line with IFRS (9), UAE Central Bank guidelines, Remedial Management Policy & Write-Off Policy.

(c) Description of methods used for determining accounting provisions for credit losses. In addition, banks that have adopted an ECL accounting model must provide information on the rationale for categorisation of ECL accounting provisions in general and specific categories for standardised approach exposures

Bank measures allowance for credit losses using Expected Credit Loss (ECL) approach as required under IFRS 9 guidelines. The ECL model is three-stage model approach which is based on the change in credit quality of financial assets since initial recognition.

Bank monitors all the financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition.

- If there is no significant increase in credit risk since recognition, exposures are classified under stage-1 and bank recognises 12-month ECL.
- If there is significant increase in the credit risk since origination, assets are classified under stage-2 and loss allowance over the entire remaining life of the asset is measured.
- Financial assets with objective evidence of impairment at the reporting date are considered credit impaired and classified under stage-3. Amount equal to lifetime ECL will be measured for these assets.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Measurement of ECL

Following risk parameters have been used by the Bank to measure the ECL:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Above parameters are estimated internally based on historical data using sophisticated statistical models.

PD is the predicted probability that a pool of obligors will default over the predefined future time horizon. For each portfolio of financial instruments, PDs are estimated using robust statistical models – rating models for wholesale facilities and roll rate models for retail facilities. Macroeconomic adjustment of the PD has been carried out as described above to reflect forward-looking information.

LGD is an estimate of the loss arising on default. The bank estimates the LGD based on the difference between contractual cash flows due and those that the lender would expect to receive, considering cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation considering sale discounts, time to realisation of collateral, cross collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted using the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

Forward-looking Information

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Based on the historical data on key macroeconomic indicators provided by governmental body and monetary authority, the Group formulates a 'base case' view of the future direction of the economic outlook that drives the default rates of each portfolio of financial instruments. The baseline scenario represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting and other business activities. The adverse scenario represents more pessimistic outcomes.

Using robust macroeconomic modelling methodology, Group identified and documented the key macroeconomic factors that drives the change in default rates of each portfolio of financial instruments. Macroeconomic data published by the CBUAE have been utilized by the Group to incorporate forward-looking information into the PD term structure of each of the scenario.

ECL is calculated as a product of three risk parameters – PD, LGD and EAD. ECL is calculated for every 12th month from the reporting date, till the remaining tenure of the loan. Calculated ECL is discounted to reporting date using customer's contractual interest rate to arrive at present value. Both Stage-1 and Stage-2 ECL is calculated for each customer under both baseline and adverse scenarios. ECL assigned to the customer will be based on IFRS9 stage to which it will be assigned to. Final ECL calculated for each facility is weighted by probabilities of two economic scenarios – a baseline and an adverse – with a weightage of 70%, and 30% respectively.

(d) The bank's own definition of a restructured approach

Restructure of facilities refers to convert type of a Trouble Commitment (out-of-court) in to another type of dept with longer tenors, that is usually done for stressed borrowers with financial difficulties at preventative stage by Business units with assistance of Remedial Management Department (RMD) when required and takes place without resorting to a judicial intervention.

Restructuring proposals must be submitted by business unit through fresh Credit Proposal and to be reviewed / recommended/ approved by Remedial Department and/or the prevailing credit authorities depending on their approval level Delegation matrix. Restructuring Proposals for accounts already in the legal process must be referred to Legal Department for opinion. Any approval request that exceeds the delegation of the Head of Remedial Management will refer to lending authority matrix in corporate credit policy.

Restructuring of facilities is generally be subject to Bank's Fees and / or Down Payment to be decided case-by-case.

Quantitative Disclosures

(e) Breakdown of exposures by geographical areas, industry and residual maturity.

Gross Credit Exposures by Geography as on 31st December 2022 (AED 000's)

Geographical Area	Loans and Advances	Investments, Deposits & balances due from banks	Total Funded	Commitments, LCs & Guarantees	Receivables and other assets	Total Non-Funded	Total
Asia	78,159	406,282	484,441	392	789,609	790,001	1,274,443
Europe	42,060	23,833	65,893	36,730	-	36,730	102,623
The GCC	460,982	918,414	1,379,396	35,734	-	35,734	1,415,130
Other Arab countries	592,198	65,237	657,435	5,276	-	5,276	662,710
The UAE	12,166,214	1,145,334	13,311,549	4,335,915	1,102,969	5,438,884	18,750,433
The USA	2,364	23,673	26,037	-	-	-	26,037
Other	219,458	179	219,636	590	-	590	220,227
Grand Total	**13,561,434**	**2,582,952**	**16,144,386**	**4,414,638**	**1,892,578**	**6,307,215**	**22,451,602**

Gross Credit Exposures by Industry Segment as on 31st December 2022 (AED 000's)

Industry Segment	Loans and Advances	Investments, Deposits & balances due from banks	Total Funded	Commitments , LCs & Guarantees	Receivables and other assets	Total Non-Funded	Total
Agriculture & Allied Activities	18,034	-	18,034	17,184	-	17,184	35,218
Bank & Financial Institutions	-	467,075	467,075	89,466	-	89,466	556,541
Construction	674,094	-	674,094	2,725,345	72,739	2,798,083	3,472,177
Electricity, Gas and Water	1,049,509	-	1,049,509	30,284	-	30,284	1,079,792
Government	1,077,938	-	1,077,938	5,000	-	5,000	1,082,938
Loans to Individuals/HNIs/Others	390,870	-	390,870	7,519	-	7,519	398,390
Manufacturing	789,465	-	789,465	448,003	219,176	667,179	1,456,644
Non-Banking Financial Institutions	125,048	-	125,048	61,807	-	61,807	186,855
Other Services	2,949,754	-	2,949,754	261,411	2,875	264,286	3,214,039
Real Estate	4,162,588	98,958	4,261,546	237,807	655	238,462	4,500,008
Retail/Consumer banking	429,152	-	429,152	161,367	-	161,367	590,520
Sovereign	-	2,016,920	2,016,920	-	-	-	2,016,920
Trade	1,690,115	-	1,690,115	344,679	1,597,134	1,941,813	3,631,928
Transport, Storage & Communication	204,867	-	204,867	24,766	-	24,766	229,633
Grand Total	**13,561,434**	**2,582,952**	**16,144,386**	**4,414,638**	**1,892,578**	**6,307,215**	**22,451,602**

Gross Credit Exposures by Residual Maturity as on 31st December 2022 (AED 000's)

Residual Maturity	Loans and Advances	Investments, Deposits & balances due from banks	Total Funded	Commitments, LCs & Guarantees	Receivables and other assets	Total Non-Funded	Total
1) Less than 3 Months	532,938	83,487	616,426	554,669	122,219	676,888	1,293,314
2) 3 months to 1 Year	2,822,400	285,311	3,107,711	877,585	1,770,359	2,647,944	5,755,655
3) 1 to 5 Years	2,388,915	497,032	2,885,947	1,672,346	-	1,672,346	4,558,293
4) Over 5 years	7,817,181	1,717,122	9,534,302	1,310,038	-	1,310,038	10,844,340
Grand Total	**13,561,434**	**2,582,952**	**16,144,386**	**4,414,638**	**1,892,578**	**6,307,215**	**22,451,602**

Note *– Balance with CBUAE, prepayments, advance to acquire properties, etc are not included in the above tables amounting to AED 2.85 Bn, thereby totalling to AED 25.3 Bn which is in line with the total gross carrying amount as per audited financial statements.*

(f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry.

Amounts of impaired exposures and related allowances by geographical areas (AED 000's)

Region	Total Funded + Non Funded OS	Final ECL	Write offs
The UAE	2,521,711	427,941	675,725
Other	15,909	3,109	59,715
Grand Total	**2,537,619**	**431,050**	**735,440**

Amounts of impaired exposures and related allowances by industry (AED 000's)

Industry Segment	Impaired Exposure	Allowances	Write offs
Construction	364,400	55,075	68,903
Manufacturing	127,522	50,749	28,431
Non Banking Financial Institutions	18,941	4,122	139,092
Other Services	932,716	141,650	267,251
Real Estate	513,118	64,480	-
Retail/Consumer banking	27,987	12,043	33,663
Trade	552,935	102,933	198,100
Grand Total	**2,537,619**	**431,050**	**735,440**

(g) Ageing analysis of accounting past-due exposures (AED 000's)

Category	1) 1 to 30 days	2) 31 to 60 days	3) 61 to 90 days	4) 91 to 180 days	5) > 180 days	Grand Total
Corporate Lending	405,118	7,714	101,861	163,985	1,972,626	2,651,303
Retail Lending	44,039	8,876	7,781	11,378	83,093	155,166
Balances with Central Bank	-	-	-	-	-	-
Deposits and balances due from banks	-	-	-	-	-	-
Investment securities measured at amortized cost	-	-	-	-	-	-
Islamic financing and investing assets	-	-	-	-	-	-
Loan commitments, letters of credit and financial guarantee contracts	-	-	-	-	-	-
Receivables and other assets	-	-	-	-	-	-
Grand Total	**449,157**	**16,589**	**109,641**	**175,363**	**2,055,719**	**2,806,468**

(h) Breakdown of restructured exposures between impaired and not impaired exposures (AED 000's)

Risk Category Final	Loans and Advances	Investments, Deposits & balances due from banks	Total Funded	Commitments, LCs & Guarantees	Receivables and other assets	Total Non-Funded	Total
Not Impaired	1,123,110	-	1,123,110	14,680	-	14,680	1,137,790
Impaired	640,680	-	640,680	2,098	-	2,098	642,778
Grand Total	**1,763,790**	**-**	**1,763,790**	**16,778**	**-**	**16,778**	**1,780,569**

9.5 Qualitative disclosure requirements related to credit risk mitigation techniques (CRC)

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The Group holds financial instruments of AED 5,171 million for which no loss allowance is recognised because of collateral at the end of the reporting period. The estimated value of collaterals held at end of the reporting period is AED 9,078 million. This value of the collateral is only considered to the extent that mitigates the credit risk. There was no change in the Group's collateral policy during the year. The Bank uses Credit Conversion Factor (CCF) against Off-balance sheet items and Credit Risk Mitigation (CRM's) against on- and off-balance sheet items as a netting practice, as per the CBUAE rules and regulations.

Policies and processes for collateral valuation and management: CBI uses comprehensive approach for collateral valuation, which follows CBUAE guidelines. Under this approach, bank reduces its credit exposure while calculating capital requirements to the extent of mitigation provided by the eligible financial collateral. In line with Basel 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 the 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.

9.6 Credit risk mitigation techniques – overview (CR3)

AED in 000's		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	14,323	2,902	2,902	-	-	-	-
2	Debt securities	2,116	-	-	-	-	-	-
3	**Total**	16,439	2,902	2,902	-	-	-	-
4	Of which defaulted	1,502	340	340	-	-	-	-

9.7 Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk (CRD)

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period

Bank is using following ECAIs under rated claims:

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

There is no change in this regard over the reporting period.

(b) The asset classes for which ECAI and ECA is used

ECAI risk assessments are used by the Bank as part of the determination of risk weightings for exposure to Banks, investments in bonds & sovereigns and corporate loans, if any.

(c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book

To assess the default probability of corporate customers, Bank has been using PD model developed by Moody's Risk Analyst. PD model was calibrated to the Bank's internal rating scale and is housed within the Moody's CreditLens platform.

The Bank performs regular validation of the rating model and its predictive power with regard to default events.

(d) The alignment of the alphanumerical scale of each agency used with the risk buckets (except where the relevant supervisor publishes a standard mapping with which the bank has to comply)

The Bank's internal ratings scale is mapped to Moody's rating scale:

Risk grade	Moody's Rating	Description
1	Aaa	Low to fair risk
2+	Aa1	Low to fair risk
2	Aa2	Low to fair risk
2-	Aa3	Low to fair risk
3+	A1	Low to fair risk
3	A2	Low to fair risk
3-	A3	Low to fair risk
4+	Baa1	Low to fair risk
4	Baa2	Low to fair risk
4-	Baa3	Standard monitoring
5+	Ba1	Standard monitoring
5	Ba2	Standard monitoring
5-	Ba3	Standard monitoring
6+	B1	Watch and special monitoring
6	B2	Watch and special monitoring
6-	B3	Watch and special monitoring
7+	Caa1	Watch and special monitoring
7	Caa2	Watch and special monitoring
7-	Caa3	Watch and special monitoring
8	Ca – C	Default: Substandard
9	Ca – C	Default: Doubtful
10	Ca – C	Default: Impaired

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

Asset classes (AED in 000's)		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	5,417	5	5,417	1	1,473	27.19%
2	Public Sector Entities	1,570	30	1,570	30	1,315	82.17%
3	Multilateral development banks	-	-	-	-	-	0.00%
4	Banks	467	129	467	69	455	84.96%
5	Securities firms	126	58	32	49	81	100.00%
6	Corporates	5,107	5,454	4,170	1,701	5,803	98.82%
7	Regulatory retail portfolios	413	164	396	37	351	81.00%
8	Secured by residential property	630	-	629	(0)	230	36.61%
9	Secured by commercial real estate	2,711	109	2,411	29	2,440	100.00%

10	Equity Investment in Funds (EIF)	-	-	-	-	-	0.00%
11	Past-due loans	1,573	268	1,233	268	2,018	134.38%
12	Higher-risk categories	-	-	-	-	-	0.00%
13	Other assets	967	-	967	-	1,016	105.02%
14	**Total**	**18,981**	**6,219**	**17,292**	**2,185**	**15,181**	**77.94%**

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

	Asset classes / Risk Weight (AED in 000's)	0%	20%	35%	50%	75%	85%	100%	150%	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	3,825,410	149,658	-	-	-	-	1,443,011	-	5,418,079
2	Public Sector Entities	-	-	-	570,664	-	-	1,029,446	-	1,600,111
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
4	Banks	-	55,944	-	71,728	-	-	408,178	10	535,860
5	Securities firms	-	-	-	-	-	-	81,097	-	81,097
6	Corporates	2,705	139,937	-	4,663	-	10,476	5,614,875	98,958	5,871,614
7	Regulatory retail portfolios	-	-	-	-	329,229	-	103,916	-	433,144
8	Secured by residential property	-	-	612,077	-	2,894	-	13,791	-	628,761
9	Secured by commercial real estate	-	-	-	-	-	-	2,439,975	-	2,439,975
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	-	469,012	1,032,621	1,501,632
12	Higher-risk categories	-	-	-	-	-	-	-	-	-
13	Other assets	62,977	-	-	-	-	-	681,128	223,029	967,135
14	**Total**	**3,891,092**	**345,539**	**612,077**	**647,055**	**332,122**	**10,476**	**12,284,430**	**1,354,618**	**19,477,409**

10. Counterparty Credit Risk (CCR)

10.1 General Qualitative Information about Credit Risk (CCRA)

Counterparty credit risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

CCR is managed within the overall risk appetite for corporate and financial institutions. CCR limits are set for individual counterparties. Individual limits are assigned to specific exposures using Pre-Settlement Risk (PSR) and Potential Future Exposure (PFE) methodology.

10.2 Credit risk (CCR) exposure by approach (CCR1)

	AED in 000's	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	30,701	8,164		1.4	54,410	23,786
2	*Internal Model Method (for derivatives and SFTs)*						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	*VaR for SFTs*						
6	**Total**	30,701	8,164			54,410	23,786

10.3 Credit valuation adjustment (CVA) capital charge (CCR2)

AED in 000's		EAD post-CRM	RWA
1	All portfolios subject to the Standardised CVA capital charge*	-	-
2	All portfolios subject to the Simple alternative CVA capital charge	54,410	23,786

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

Regulatory portfolio / Risk Weight AED in 000's	0%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-
Banks	-	19,019	30,819	-	-	-	-	49,837
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	4,573	-	-	4,573
Regulatory retail portfolios	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	**-**	**19,019**	**30,819**	**-**	**4,573**	**-**	**-**	**54,410**

10.5 Composition of collateral for CCR exposure (CCR5)

AED in 000's	Collateral used in derivative transactions		Collateral used in SFTs	
	Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received	Fair value of posted collateral
Cash - domestic currency	-	-	-	-
Cash - other currencies	-	30,624	-	-
Domestic sovereign debt	-	-	-	-
Government agency debt	-	-	-	-
Corporate bonds	-	-	-	-
Equity securities	-	-	-	-
Other collateral	-	-	-	-
Total	-	30,624	-	-

11. Securitisation (SECA)

Not Applicable

12. Market Risk

12.1 General Qualitative disclosure requirements related to market risk (MRA)

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. As a strategy the bank does not hold a trading book. The Bank has established and approved various risk limits for banking book (including limits for interest rate risk factors, equity risk factors, foreign exchange risk factors) which are set by ALCO as delegated by the Board of Directors and monitored by Risk Group. The Risk Group is responsible for the development of detailed risk management policies and for the day-to-day monitoring of policy implementation subject to the review and approval by ALCO.

Also, CBI manages the interest rate risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities. The ALCO monitors compliance with these limits and is assisted by the Risk Management Department for day-to-day monitoring of activities. In addition, the Bank has established limits on positions by currency and these are monitored to ensure positions are maintained within established limits.

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

12.2 Market risk under the standardised approach (MR1)

Total Capital Requirement for Market Risk under Standardized Approach as on 31st December 2022

AED in 000's		RWA
1	General Interest rate risk (General and Specific)	5,188
2	Equity risk (General and Specific)	-
3	Foreign exchange risk	279,606
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	*Scenario approach*	
8	Securitization	-
9	**Total**	**284,794**

13. Interest rate risk in the banking book

13.1 IRRBBA Risk Management Objectives and Policies (IRRBBA)

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 because of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in each period.

With respect to monitoring the impact of interest rate changes on the earnings and economic value of the Bank, the Bank has developed suitable measurement approaches. The measurement systems for interest rate sensitivity analysis are traditional maturity gap analysis (to measure the interest rate sensitivity of earnings), and duration (to measure interest rate sensitivity of capital). The results of the sensitivity analysis are a calendar item at the meetings of the ALCO.

The Bank has developed a mechanism to measure gaps across tenors considering the re-pricing nature of all its assets and liabilities.

- The impact of a parallel shift in the interest rate curves on the Net Interest Income (NII) and Equity is ascertained and presented to ALCO for review on a monthly basis.
- Impact of 200 bps parallel interest rate shock on NII is calculated on a monthly basis and presented to ALCO for deliberations.
- The Bank uses two standard measures for the management of interest rate risk in the banking book as follows:
  - EaR approach - The EaR approach will measure the difference between assets and liabilities re-pricing during given time period "bands" spread over a defined period, typically 1 year. The model will apply shift in rates and assume that the balance sheet will remain unchanged over a pre-defined time horizon. The net change in interest income and expense will represent EaR and IRRBB will be measured as a percentage change relative to the projected net interest income for the year.
  - EVE approach - The EVE approach will focus on the sensitivity of Bank's economic value (shareholder value) to changes in interest rates. Sensitivity will be measured using average

duration estimates for each maturity time band.

- Non-maturing customer deposits constitute approximately 22% of banks total deposits and tenor of most customer term deposits are short (normally, less than a year) resulting in relatively quicker re-pricing of such deposits.

13.2 Quantitative information on IRRBB (IRRBB1)

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 its impact on 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 31/12/2022.

In reporting currency (AED In 000's)	∆EVE		∆NII	
Period	**Dec-22**	**Dec-21**	**Dec-22**	**Dec-21**
Parallel up	(215,158)	(138,044)	168,046	79,065
Parallel down	196,930	138,044	(168,046)	(79,065)
Steepener	-	-		
Flattener	-	-		
Short rate up	-	-		
Short rate down	-	-		
Maximum	-	-		

Period	**Dec-22**	**Dec-21**
Tier 1 capital	2,210,762	1,981,120

14. Operational Risk (OR1)

14.1 Qualitative disclosures on operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This includes legal risks and excludes reputational Risk.

Operational risk arises throughout the bank and from almost any activity. Operational risk excludes credit risks – the risks arising from financial transactions entered with obligors or counterparties in which the obligor or counterparty fails to honour its part of the transaction.

The Bank has an independent Operational Risk Department reporting to Chief Risk Officer which is tasked with monitoring and controlling the Operational Risks of the Bank. Functions of this department are guided by the Operational Risk Policy and Framework. To institutionalize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is established as part of ERM program. The Bank also has implemented Business Continuity and Disaster Recovery program which participates in the reduction of the potential external threats and this ultimately reduces the Operational risks of the bank.

Management and Monitoring of Operational Risk

The established Operational Risk Management (ORM) Framework is designed to maintain dependency between the risk management and the risk champions / owners represented by the various business groups within the bank. While keeping the responsibility of managing the business within the business groups common grounds were established to involve the operational risk management team in facilitating the risk identification, measurement and assessing of risks and relevant controls, including documenting, and tracking the risk mitigation plans, or risk acceptance. The bank also has a log of all risk acceptances with clear roadmap for revaluation of these accepted risks periodically.

In preparation for and before commencing the risk identification and assessment activity across the bank, a comprehensive risk awareness program was developed and implemented involving management, risk champions and respective risk owners.

Covering all business and support units within the bank specific risk profiles containing key and significant risks presented at their residual values was arrived at after detailed assessment and testing of the respective controls. A detailed risk heat-map is formed in consultation with business group management to draw their attention to significant and key risks that requires management attention and action on a priority basis.

The key methods used to manage and monitor operational risks are as follows:

a. Risk & Control Self-Assessment (RCSA)

The risk register and corresponding action plans are maintained and updated regularly. The review cycle involves discussions with the members of Management Risk Committee (MRC) to seek directions on risk acceptance and treatment including decision for taking actions to review and to improve the control environment.

The progress on risk mitigation action plans and the movement of risk measurement across the risk heat-map is also monitored and discussed with the respective management.

b. Key Risk Indicators (KRIs)

A special series of workshops were conducted to produce the KRIs. Based on their nature these are defined and assessed in coordination with the respective business and risk owners addressing mainly critical processes. The process includes setting means of collecting required data, analysis and management expectations for certain indicators set as acceptable threshold to create means of leading or lagging warning signals. It also involves consolidating certain common KRIs that requires actions at the bank wide level. The bank aims to improve on the KRI list to create meaningful and business relevant risk indicators.

c. Loss Data Management (LDM)

The Operational Risk team monitors and maintains a detailed register of all operational risk losses and near-miss incidents. These are linked to the respective risk profiling and key risk register, guiding the business management to direct their efforts to improve their controls and the respective services or products. Those are classified and reported based on the Basel III loss events type. ORM unit is using an automated tool for raising Op. Risk incidents where Root Cause, corrective and preventive actions are well identified and addressed.

d. Business Continuity Management (BCM)

The Bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on protecting the human life and building the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices, and CBUAE requirements and its scope extends to include:

- Crisis Management and Response
- Safety and Security
- People Continuity
- Business Recovery
- IT Disaster Recovery

The Bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond to and manage adverse events, protect key assets and continue critical processes. The results are minimized negative impacts, enhanced performance and reputation, and compliance to regulatory requirements.

e. Outsourcing

Complying with CBUAE regulations on outsourcing, the Operational Risk Management team is involved in reviewing the risk assessment related to outsourcing of material banking activities. This involves a diligent review of operational risks and business continuity requirements that are associated with the outsourced activity.

f. Fraud Prevention Management

The bank has established an Enterprise Anti-Fraud program in coordination with several internal stakeholders, aiming to prevent and reduce to the minimum losses arising from internal and external frauds.

This function is currently under Operational Risk unit as part of RMD reengineering efforts while the fraud investigation function has been moved to Internal Audit function to achieve independency and in line with the best practice.

The bank also introduced a robust fraud monitoring process across all bank's critical functions. In addition, the bank wide anti-fraud awareness program has already been conducted and the Bank is preparing for a bank wide fraud risk assessment exercise which will be linked to the existing risk profile and control registers.

g. Measurement of Operational Risk (OR) Capital Charge

Operational Risk capital charge is calculated using the Standardized Approach (TSA) as per CBUAE and BASEL III regime. 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. The Bank will also continue to collect loss data history and compare those against the allocated capital per business lines in preparation for the Advanced Approaches that the Bank is planning to implement in the long term as per revised BASEL III guidelines.

15. Remuneration Policy (REMA)

15.1 Remuneration Policy

Name, composition and mandate of the main body overseeing remuneration.

Name: Board Nomination & Remuneration Committee

Composition: Chairman, 2 Members

Mandate:

At CBI, the Board Nomination and Remuneration Committee reviews and approves policies in relation to nomination of the Board members and appointment of CEO Direct Reports and other related HR policies, the composition and diversity of the Board, its mix of skills, knowledge and experience, and the relative proportion of Independent and Non-Executive Director, the needed skills required for Board membership and identify the suitable profile and future needs and the independence of Independent Directors and the strategy and business plans related to human resources, Emiratization and training and monitor their implementation and recommends Board remuneration and Staff Performance Bonus proposals to the Board of directors.

External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.

Korn Ferry

A description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.

The policy covers all full time and temporary employees within the UAE.

A description of the types of employees considered as material risk-takers and as senior managers.

Bank considers Senior Management team as the material risk takers.

Information relating to the design and structure of remuneration processes:

An overview of the key features and objectives of remuneration policy.

The objective of this policy is to assist in attracting, motivating and retaining employees and to help the bank achieve its corporate objectives through competitive compensation packages. The policy ensures fair and smart rewards systems within UAE labour law to attract and retain a competitive workforce while encouraging sustained levels of high performance in the Bank.

Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.

CBI engaged with Korn Ferry to do the bench mark exercise to the salary structure in line with the market practice and rolled out the same.

A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.

CBI uses balanced scorecard approach to manage individual performance which is reviewed and verified centrally. This ensures that we are not rewarding for financial achievements only, but all other areas, the overall rating is connected to the rewards components that are approved and used fairly for all divisions.

Description of the ways in which current and future risks are taken into account in the remuneration processes:

Currently not applicable.

An overview of main performance metrics for bank, top-level business lines and individuals.

Scorecards are cascaded top down from the CEO, senior management to all employees. The scorecards are in 4 components of Financial, internal, customer and organization. The financial component ensures the achievement of financial targets for different divisions. The internal components ensure areas of compliance, risk and audit are covered and measured properly. The customer components focus on program deliveries, customer focus targets and projects. The organization is designed around the behavioural aspects of CBI employees. The overall rating is the calculated rating of the individual's performance across the key result areas. This performance rating is then linked to the rewards applicable.

A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance:

CBI use an approved variable remuneration policy that ensure that the actual reward pay-out will be based on corporate, department and individual performance rating and weightages, which will be additive. The weighting of corporate, department and individual performance will vary depending on the participant's grade. Each area of performance i.e. corporate, department and individual are assessed independently.

A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics:

Not achieving a metric will affect the remuneration of the individual. Rating not meeting expectations are excluded from certain rewards.

Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance:

A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.

A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.

Currently there is no deferrals policy.

An overview of the forms of variable remuneration offered (i.e, cash, shares and share-linked instruments and other forms).

Cash only variable pay (performance bonus).

A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance:

Employees are under a cash performance-based bonus scheme.

15.2 Remuneration awarded during the financial year (REM1)

Remuneration Amount (AED in 000's)			Senior Management	Other Material Risk-takers
1	Fixed Remuneration	Number of employees	10	-
2		Total fixed remuneration (3 + 5 + 7)	15,947	-
3		Of which: cash-based	15,947	-
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable Remuneration	Number of employees	10	-
10		Total variable remuneration (11 + 13 + 15)	9,171	-
11		Of which: cash-based	9,171	-
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total Remuneration (2+10)**		**25,117**	**-**

There were no special payments made to the senior management/other material risk takers as such Guaranteed Bonuses/ Sign on Awards/ Severance Payments is not applicable. Additionally, there are no deferred and retained remuneration.

ABBREVIATIONS:

CAR	Capital Adequacy Ratio
CCF	Credit Conversion Factor
CRO	Chief Risk Officer
BRF	Banking Return Forms
CBUAE	Central Bank of UAE
AED	Arab Emirates Dirham
CRM	Credit Risk Mitigation
RWA	Risk Weighted Asset
CRWA	Credit Risk Weighted Assets
GP	General Provision
BRC	Board Risk Committee
MRC	Management Risk Committee
ALCO	Asset Liability Management Committee