Commercial Bank International

Basel III – Pillar 3 Disclosures

For the Year Ended

31 December 2020

Basel III – Pillar 3 Disclosures
For the Year Ended 31st December 2020

Reviewed & Approved By:

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Head of Financial Risk	Chief Risk Officer	Chief Financial Officer

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Executive Summary

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

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

The disclosure has been prepared in accordance with the rules laid out in the CBUAE guideline (Capital Adequacy Standards – Pillar 3 dated December 2017) and reported to CBUAE annually. This report consists of qualitative and quantitative information using tables in the following pages.

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

1. Introduction

Pillar 3 Basel reporting complements the minimum capital requirements and supervisory review process. It consists of measures designed to promote enhanced market discipline.

This report is the Pillar 3 disclosure under CBUAE Basel III guidelines (CBUAE Basel III guidelines on Pillar 3 - December 2017). An explanation of approaches adopted by the Bank for measuring minimum capital requirement for various Pillar 1 risks as well the Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 are discussed in subsequent sections of this report. **CBUAE has released the new Capital Guidelines and the revised Pillar 3 tables and disclosures will be effective from Q4, 2021.**

2. Scope of Application

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

The consolidated financial statements incorporate the financial information of the Bank and its subsidiaries International Financial Brokerage LLC (the subsidiary - IFB), Takamul Real Estate Company (the subsidiary - TRE) and other entities mentioned in Table 1 below, collectively referred to as Group as of 31st December 2020. The subsidiary – IFB is a limited liability company registered in the Emirate of Dubai and acts as a broker for customers trading in shares and securities on the Dubai Financial Market and the Abu Dhabi Exchange. The Bank owns 99.40% of the subsidiary – IFB. The subsidiary – TRE is a limited liability company registered in the Emirate of Dubai and acts as a real estate broker. The Bank owns 100 % of the subsidiary – TRE.

For the purpose of Basel 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.

Table (1) - Information on Subsidiaries and Significant investments as on 31st December 2020

Basis of Consolidation							
Subsidiaries	**Country of Incorporation**	**% Ownership**	**Description**	**Accounting Treatment**	**Surplus Capital**	**Capital Deficiencies**	**Total Interests**
International Financial Brokerage (Note)	U.A.E.	99.4%	Brokerage for share trading	Fully consolidated for both Accounting (Annual Financial Statements) and Regulatory purpose (Basel III Reporting)	N.A	N.A	N.A
Takamul Real Estate	U.A.E.	100.0%	Developments, Buying, Selling, Leasing & Management of Real Estate Property	• Fully consolidated for Accounting (Annual Financial Statements) • Deconsolidated for Regulatory Reporting (Basel III)	N.A	N.A	N.A
Al Khaleejiah Property Investments LLC	UAE	52.8%	Real estate Developments & Investments		N.A	N.A	N.A
Al Caribi Development Limited	Antigua and Barbuda	100.0%	Real estate Developments & Investments		N.A	N.A	N.A
CBI Financial Services Limited	UAE	100.0%	SPV	Fully-Consolidated	N.A	N.A	N.A
CBI Tier 1 Private Ltd	UAE	100.0%	SPV	Fully-Consolidated	N.A	N.A	N.A
Significant Investments – NIL							

Note: International Financial Brokerage is a dormant entity, the brokerage operations have been discontinued on 1st July 2018.

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

3. Capital Structure – Basel III

The authorized, issued, and paid-up capital of the Bank comprises 1,737,383,050 shares of AED 1 each as at 31 December, 2020.

Amount '000s

Capital Base		2,314,867
1	Common Equity Tier 1 (CET1) Capital	1,696,981
1.1	Share Capital	1,737,383
1.2	Share premium account	
1.3	Eligible Reserves	204,093
1.4	Retained Earnings / (-) Loss	-191,424
1.5	Eligible amount of minority interest	311
1.6	Capital shortfall if any	
	CET1 Capital before regulatory adjustments and threshold deduction	1,750,363
1.7	Less : Regulatory deductions	53,382
1.8	Less : Threshold deductions	
	Total CET1 Capital after regulatory adjustments and threshold deduction	1,696,981
2	Additional Tier 1 (AT1) Capital	459,125
2.1	Eligible AT1 capital (After grandfathering)	459,125
2.2	Other AT1 capital e.g. (Share premium, minority interest)	
	Total AT1 capital	459,125
3	Tier 2 (T2) Capital	158,761
3.1	Tier 2 Instruments e.g. subordinated loan (After grandfathering and/or amortization)	
3.2	Other Tier 2 Capital (including general provisions etc.) 1	
	Total T2 Capital	158,761

The total capital base reported as per Audited Financials as of 31st Dec 2020 – AED 2,314,867K

Note: On 23 December 2015, the Bank issued Tier 1 Capital Securities (the "Capital Securities") through an SPV, CBI Tier 1 Private Ltd, (the "Issuer") amounting to USD 125 million (AED 459.125 million). These Capital Securities are perpetual and carry an interest rate of 6.50 % (calculated based on the relevant Six- Years Mid Swap Rate plus 4.71 percent per annum) during the "initial period". After the initial period, at every reset date, interest would be calculated for the next reset period at the relevant Six-Year Mid Swap Rate plus a margin of 4.71 percent per annum. Interest is payable semi-annually in arrears on these Capital Securities. The "Initial Period" is the period (from and including) the Issue Date to (but excluding) the First Call Date. The "Reset Date" is the First Call Date and every sixth anniversary thereafter. These Capital Securities are callable by the Bank beginning from 23 December 2021 "First Call date" and every interest payment date thereafter.

Tier 1 Capital Securities are perpetual, subordinated and unsecured. The Bank may elect not to pay a coupon at its own discretion. The holder of the Capital Securities does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default.

4. Risk Management

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, rate of return risk, market risk, displaced commercial 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 function and Compliance function.

5. Capital Adequacy

Implementation of Basel III Guidelines

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

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

3 (a) –Qualitative Disclosures Risk Management

CBI is subject to compliance to the capital adequacy guidelines stipulated by CBUAE which are in the framework of Basel Committee of Banking Supervision. The approach taken by CBI to assess the adequacy of its capital is based on these guidelines and the approved Internal Risk Capital & Basel Implementation Policy.

In implementing current capital requirements, the Group calculates its capital adequacy ratio in accordance with the **Basel III guidelines** issued by the Central Bank of the U.A.E. These guidelines came into effect from 1 February 2017 with first reporting requirement starting from December 2017 onwards. Under these regulations, minimum capital requirements are monitored at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1 ('T1') and Total Capital.

- Common Equity Tier 1 Capital, which includes Common shares issued by a bank, share premium resulting from the issue of instruments included in CET1, retained earnings, legal reserves, statutory reserves, accumulated other comprehensive income and other disclosed reserves, minority interest, which are eligible for inclusion in CET1 and regulatory adjustments applied in the calculation of CET1;
- Additional Tier 1 Capital (AT1);
- Tier 1 capital, which is the total of Common Equity Tier 1 (CET1) Capital and Additional Tier 1 (AT1) capital;
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of credit RWA), perpetual equity instruments, not included in Tier 1 capital and Instruments which are eligible for inclusion of Tier 2 e.g. subordinated loan.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced under Basel III guidelines are over and above the minimum CET1 requirement of 7%.

For 2020, CCB is required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2020.

	Minimum Requirement 2020	CBI Dec 2020
CET1 capital ratio	**7.0%**	**11.95%**
Tier 1 capital ratio	**8.5%**	**15.18%**
Total capital ratio	**10.5%**	**16.30%**
CET1 available for the buffer requirement	**2.5%**	**Above buffer; 0% conservation**

CBI's strategy is to keep adequate capital levels all the times to meet regulatory requirements while aiming to optimize the return to shareholder's capital. In accordance with the capital management strategy, the bank recognizes balance between efficiency, flexibility and adequacy in the consideration of capital management.

6. Risk Governance

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 Six Broad Principles of Risk Management

The Six Broad Principles define the accountability, independence, structure, and scope of Risk Management.

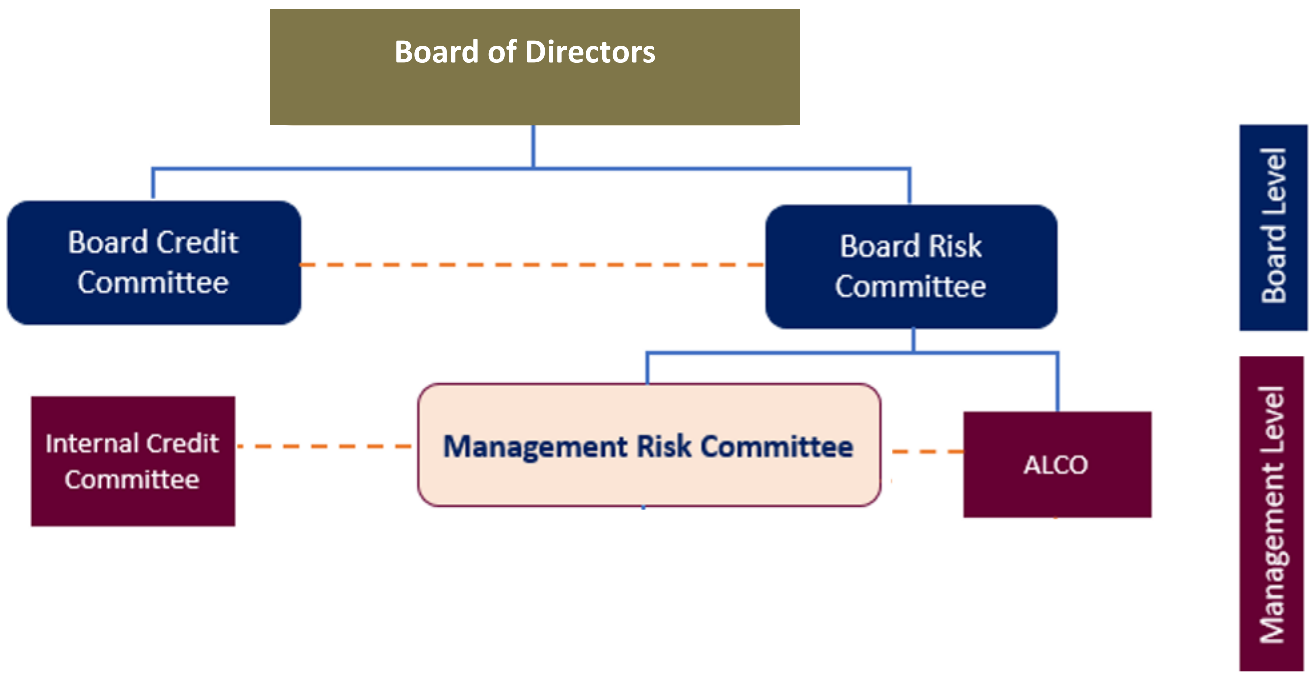
1. The risk management approach is premised on three lines of defense – risk taking business units, risk control units like Risk, Compliance and Internal Audit.
2. The risk-taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control 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.
3. At Commercial Bank International (CBI), the Risk Management through the Chief Risk Officer, assume the independent responsibility of reviewing the approval through the Internal Credit Committee (ICC), of all major credit proposals of the bank which are prepared, sponsored and recommended by the Business Units. 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 Pillar 2 of the BASEL regime.
4. 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.
5. ERM is functionally and organizationally independent of the business units and other risk-taking units within CBI.
6. 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 through CRO Dashboard. Through CRO Dashboard, the underlying risks in different areas are analyzed and presented to the senior management for making business decisions. The CRO Dashboard which is generated monthly, covers 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.



7. Credit Risk

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

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

Policies and processes:

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

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

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

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

The Bank evaluates industry risk by considering:

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

CBI's ECL (Expected Credit Loss) calculation based on IFRS 9 and IFRS9 ECL disclosures are available in Annual Financial Report 2020.

8. 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.

9. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. 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 honor its part of the transaction.

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. This will reduce the potential Operational risk.

a. 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.

During the year, the operational risk management team conducted specialized training workshops and data gathering through meetings with business and senior management endeavoring to gain a clear understanding of business directions by cascading the relevant business unit strategic objectives. The approach is designed to associate the management directions, with the allocated operational risk appetite, and the risk profile.

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:

i. 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.

ii. Key Risk Indicators (KRIs)

A special series of workshops were conducted to produce the first list of 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.

iii. 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.

iv. 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:

a. Crisis Management and Response
b. Safety and Security
c. People Continuity
d. Business Recovery
e. 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.

v. 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.

vi. Anti-Fraud 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 in the process of transitioning to Operational Risk unit as part of RMD reengineering efforts. 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.

vii. 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 aims to move towards the Alternative Standardized Approach (ASA) for Operational Risk Capital Charge Calculation in the coming years. In this context, the Bank will formally seek CBUAE guidance for adopting the ASA as and when a prudent judgement call is made. 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.

10. 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 is thoroughly overhauled during the FY 2020-21 and a robust and comprehensive Pillar 2 risk assessment model is put in place to be in sync 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.

At the Bank level, the overall capital adequacy is assessed through the ICAAP Framework. As a result, the organization has identified material risks and assessed the capital levels consistent with the risks identified.

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 & Compliance Committee (BRCC) 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 in March 2021, 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. The Stress Testing Task Force comprising various risk management teams tables the stress testing reports through CRO with CEO and the Board Risk Committee before getting approval from Board and discusses the results with regulators during annual bilateral meetings, where applicable.

Table (3b) - Capital Adequacy as on 31st December 2020 – Basel III

Quantitative Disclosures - Capital Adequacy as on 31st December 2020				
Capital Requirements		**RWA**	**Capital Charge**	**Capital Ratio (%)**
1	Credit Risk - Standardised Approach	12,700,872	1,651,113	
2	Market Risk - Standardised Approach	8,468	1,101	
3	Operational Risk	1,489,725	193,664	
	a. Basic indicator approach	-	-	
	b. Standardised approach/ASA	1,489,725	193,664	
	c. Advanced Measurement Approach	-	-	
	Total Capital requirements	14,199,065	1,845,878	
	Capital Ratio			**16.30%**
	a. Total for Top consolidated Group			16.30%
	b. Tier 1 ratio only for top consolidated Group			15.18%
	c. CET1 ratio only for top consolidated Group			11.95%

11. Past Due & Impaired Loans

4(a) - Qualitative Disclosures

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

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

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

Specific Provision

The specific provision requirement is in line with the CBUAE guidelines (Circular No 28/2010) and IFRS9.

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

General Provision

General provisioning in the bank is done based on CBUAE regulation on Classification of Loans & their Provisions (Circular no 28/2010). These provisions are calculated at 1.5% multiplied by the 'normal' and 'watch list' Credit Risk Weighted Assets (CRWA) calculated as per Basel III reports and also based on IFRS9.

a. New and revised IFRS – Implemented in CBI from 1st January 2018

• Finalized version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and de-recognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.

- Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- DE recognition: The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39.

b. Application of IFRS 9

The Group has reported the Expected Credit Loss in compliance with IFRS9 standards in the annual report 2020. IFRS 9 requires that the impairment model apply to all the following:

1. Financial assets measured at amortized cost;
2. Financial assets mandatorily measured at Fair Value Through Other Comprehensive Income (FVTOCI) except equity instruments;
3. Financing commitments when there is a present obligation to extend credit (except where these are measured at Fair Value Through Profit & Loss (FVTPL));
   a) Financial guarantee contracts to which IFRS 9 is applied (except those measured at FVTPL);
   b) Lease receivables within the scope of IAS 17 Leases; and
   c) Contract assets within the scope of IFRS 15 Revenue from Contracts with Customers (i.e., rights to consideration following transfer of goods or services).

c. Measurement of impairment of financial instruments under IFRS 9

In accordance with IFRS 9, the Bank shall measure expected credit losses (ECL) of a financial instrument in a way that reflects:

1. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
2. The time value of money; and
3. Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.
4. The ECL calculation is done based on the Risk Rating of the contract, Probability of Default (PD) mapped to each risk rating, Loss Given Default (LGD) and Exposure at Default (EAD).
5. The Bank is using internally developed LGD model for all Corporate, SME, Project Finance and Wealth Management along with retail Obligors and for all Sovereign Banks, Multilateral Development Banks, and Government entities the LGD is taken at 45%. All Off-Balance sheet exposures that are 100% and above cash margin collateralized, the LGD will be 0%,
6. The Risk Rating mapped to the PD percentages. The same is used in ECL calculations under IFRS 9.
7. The following macroeconomic indicators used for calculating the ECL for the life cycle of the asset:

   a) Oil Price and Production per day
   b) GDP Growth
   c) Abu Dhabi Real-estate prices
   d) UAE real investment
   e) EIBOR rate
   f) Inflation
   g) UAE imports

The guiding principle of the IFRS 9 ECL model is to reflect the deterioration or improvement in the credit quality of financial instruments. The amount recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. There are two measurement bases which recognize ECLs depending on the "Stage" in which the financial instrument is:

- ✓ 12-month ECLs, which applies to all financial instruments (from initial recognition), provided there is no significant deterioration in credit quality. Such financial instruments are said to be in Stage 1 and are typically the performing assets of the Bank.
- ✓ Lifetime ECLs, which applies when a significant increase in the credit risk has occurred on an individual or collective basis. Such financial instruments are said to be either in Stage 2 or 3. Stage 3 assets and are considered under-performing and credit-impaired, respectively.

Certain criteria (called Staging Criteria) are set out by IFRS 9 regulation, and complemented by CBUAE regulation, to determine what constitutes a Significant Increase in Credit Risk (SICR) for the purposes of staging of financial instruments. All criteria require the attention of Relationship Managers (RMs) and RMD to determine if there is evidence of increased credit risk. Any instance of each occurring would result in the movement of an account from stage 1 to 2.

The criteria will not apply at point of origination (new exposures) which will initially be assigned to Stage 1.

In line with IFRS 9, the staging is assessed at an individual financing contract level and not at a customer level. A customer can have some financings in Stage 1 and others in Stage 2. An account will be moved back from Stage 2 to 1 once no Stage 2 criteria apply.

Discussion of Bank's credit risk management policy:

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

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

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

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

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

12. Basel III Approach - Reporting

Bank is following the Standardized approach.

Approach	Description of exposures	Plans and timing of migration to implement fully higher approach
Standardized Approach	Bank is currently following Standardized approach for credit, market risk, and operational risk to calculate CAR under guidelines stipulated by CBUAE under the framework of Pillar I of Basel III guidelines.	

13. Credit Risk Related Disclosures

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

Different credit approval processes exist for each customer type which ensures that appropriate skills and resources are employed in credit assessment and approval. The guidelines for approving new credits, renewing existing credits, or changes in the existing terms and conditions of the previously approved credits are provided in the credit manual. The Bank uses Moody's 'Risk Analyst' solution (now upgraded to 'Credit Lens'), one of the well-known solution for risk rating from 'Moody's Analytics' to capture, analyze and store financial and non-financial borrower and facility information.

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

Detailed explanations are available in Note to accounts No 41.1/Credit Risk:

Table 4(b) - Gross Credit Exposures by Currency Type as on 31st December 2020 (AED'000)

Currency Type	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded	Total
Foreign Currency	1,611,951	1,537,078	3,149,029	-	2,065,127	359,247	2,424,374	5,573,404
AED	9,638,565	-	9,638,565	2,183,135	179,613	2,363,563	4,726,311	14,364,876
Total	**11,250,516**	**1,537,078**	**12,787,594**	**2,183,135**	**2,244,740**	**2,722,810**	**7,150,685**	**19,938,279**

Table 4 (c) - Gross Credit Exposures by Geography as on 31st December 2020

(AED 000's)

Geographic Distribution	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded	Total
United Arab Emirates	10,929,763	642,090	11,571,853	2,126,954	1,538,859	2,678,901	6,344,715	17,916,567
GCC excluding UAE	2,431	784,794	787,224	14,692	-	9,260	23,952	811,176
Arab League (excluding GCC)	578	-	578	-	-	10,647	10,647	11,225
Asia	73,835	110,194	184,029	41,489	705,881	-	747,369	931,398
Africa	-	-	-	-	-	13,895	13,895	13,895
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	164,845	-	164,845	-	-	-	-	164,845
Europe	-	-	-	-	-	549	549	549
Australia	-	-	-	-	-	-	-	-
Others	79,065	-	79,065	-	-	-	-	79,065
Total	**11,250,516**	**1,537,078**	**12,787,594**	**2,183,135**	**2,244,740**	**2,713,251**	**7,141,126**	**19,928,721**

Table 4(d) - Gross Credit Exposure by Industry Segment as on 31st December 2020

(AED 000's)

INDUSTRY SEGMENT	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded	Gross
Agriculture, Fishing & related activities1	0	-	0	827	-	219	1,046	1,047
Crude Oil, Gas, Mining & Quarrying2	-	-	-	-	-	459	459	459
Manufacturing3	564,124	-	564,124	228,794	143,510	234,545	606,850	1,170,974
Electricity& Water	511,003	-	511,003	16	-	58,168	58,184	569,187
Construction 4	783,282	-	783,282	644,076	92,383	1,969,809	2,706,269	3,489,550
Trade	1,571,535	-	1,571,535	393,178	1,988,771	128,269	2,510,217	4,081,752
Transport, Storage & Communication6	238,681	-	238,681	43,002	-	19,464	62,466	301,147
Financial Institutions 7	368,673	183,123	551,795	83,463	-	114,273	197,735	749,531
Services8	2,758,189	-	2,758,189	323,458	20,076	168,860	512,394	3,270,583
Government9	-	1,353,955	1,353,955	5,000	-	-	5,000	1,358,955
Retail/Consumer banking1o	682,008	-	682,008	201,202	-	426	201,628	883,635
All Others and Real Estate	3,773,022	-	3,773,022	260,119	-	18,759	278,878	4,051,900
Total	**11,250,516**	**1,537,078**	**12,787,594**	**2,183,135**	**2,244,740**	**2,713,251**	**7,141,126**	**19,928,721**

Table 4(e) - Gross Credit Exposures by Residual Contractual Maturity as on 31st December 2020

(AED 000's)

Residual contractual maturity	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded
Less than 3 months	1,812,007	165,198	1,977,205	825,423	770,666	1,862,791	3,458,880
3 months to one year	2,076,340	210,914	2,287,254	588,305	1,474,074	775,042	2,837,422
One to five years	3,422,968	215,849	3,638,817	530,524	-	75,409	605,932
Over five years	3,939,202	945,116	4,884,319	238,883	-	9	238,893
Grand Total	**11,250,516**	**1,537,078**	**12,787,594**	**2,183,135**	**2,244,740**	**2,713,251**	**7,141,126**

Table 4(f) - Impaired Loans by Industry Segment as on 31st December 2020 (AED'000)

Industry Segments	Overdue			Provisions		
	Less than 90 days	90 days and above	Total	Specific (ECL Stage 3)	General (ECL Stage 1 & 2)	Total Impaired Assets net of Provision & IIS
Agriculture, Fishing & related activities 1	1	0	2	0.2		1
Crude Oil, Gas, Mining & Quarrying2	-	-	-	0		-
Manufacturing3	27,806	100,922	128,728	56,642		72,086
Electricity& Water	-	-	-	0		-
Construction 4	7,093	78,831	85,924	10,006		75,917
Trade5	1,553	491,456	493,009	215,058		277,951
Transport, Storage & Communication6	1,015	3	1,018	1		1,017
Financial Institutions 7	-	153,895	153,895	79873		74,022
Services8	58,644	638,184	696,828	276,137		420,690
Government9	-	-	-	0		-
Retail/consumer banking1oans	10,840	26,640	37,479	17,244		20,236
All Others / Real estate	6,343	250,894	257,238	26,991		230,246
Grand Total	**113,294**	**1,740,825**	**1,854,119**	**681,953**	**223,833**	**1,172,166**
						223,833
						948,333

*General Provision (ECL Stage 1 & 2) is given as a consolidated amount without any industry segmentation

Table 4(g) - Impaired Loans by Geographic Distribution as on 31st December 2020

								(AED 000's)
Geographic Region	Overdue			Provisions		Adjustments		Total Impaired Assets (Net of ECL)
	Less than 90 days	90 days and above	Total	Specific (ECL Stage 3)	General (ECL Stage 1 & 2)	Write-offs	Write-backs	
United Arab Emirates	113,294	1,670,442	1,783,736	645,471		308,685	44,225	1,138,265
GCC (excluding UAE)								
Arab League (excluding GCC)								
Asia						29,551		
Africa								
North America								
South America								
Caribbean		70,382	70,382	36,482				33,901
Europe								
Australia								
Others								
Grand Total	**113,294**	**1,740,825**	**1,854,119**	**681,953**	**223,833**	**338,236**	**44,225**	**1,172,166**
Less : General Provision (ECL Stage 1 & 2)								223,833
Total Impaired Assets Net of Total ECL								**948,333**

Table 4(h) - Reconciliation of Changes in Provision for the period – 1st January 2020 to 31st December 2020 (AED'000)

Particulars	ECL Allowance 31/12/2020
Balance at 1 January 2020 (ECL Opening as per IFRS 9)	**839,489**
Add: Charge for the year	
Specific Provisions (ECL Stage 3)	402,481
General Provisions (ECL Stage 1 and Stage 2)	46,277
Less: Write-off of impaired loans	-338,236
Less: Recovery of loans previously written off	0
Less: Write back / Recovery of loan loss provisions	-44,225
Less: Adjustments of loan loss provisions	0
Balance of provision for impaired loans as at 31 December 2020	**905,786**

Table 4(i) - Portfolio as per Standardized Approach as on 31st December 2020

					(AED 000's)
Assets Classes	**On & Off Balance Sheet**	**Credit Risk Mitigation (CRM)**		**On & Off Balance Sheet**	**Risk weighted assets**
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	**Gross Outstanding**	**Exposure before CRM**	**CRM**	**Net Exposure After CCF**	
Claims on Sovereigns	1,449,502	1,449,502	-	1,445,502	-
Claims on Non Central Government public sector entities. (PSE's)	244,548	244,548	-	244,548	-
Claims on multilateral development banks	-	-	-	-	-
Claims on banks	170,216	170,216	-	118,410	52,315
Claims on securities firms	-	-	-	-	-
Claims on Corporate & Government Related Entities	12,077,326	12,074,563	2,368,736	9,545,013	7,171,661
Claims included in the regulatory retail portfolio	941,781	938,617	30,867	747,496	549,153
Claims to secured by residency property	827,847	827,847	12	827,803	577,583
Claims secured by commercial real estate	2,406,862	2,406,862	300,000	2,245,820	1,945,820
Past due loans	1,853,813	967,685	50,604	954,316	1,142,618
High risk categories	-	-	-	-	-
Other assets	2,953,165	2,721,375	-	2,721,375	1,261,721
Claims on securitized assets	-	-	-	-	-
Credit derivatives (Banks Selling protection)	-	-	-	-	-
Total Claims	22,925,060	21,801,216	2,750,219	18,850,284	12,700,872

5 (a) Qualitative Disclosures

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

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

Types of exposure for which each agency is used:

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

Table 5 (b) – Portfolio as per Standardized Approach as on 31st December 2020

Asset Class	On & Off BS Exposure Before CCF & CRM			On & Off BS Net exposure after CCF & CRM	Risk Weighted Assets
	Rated	Unrated	Total		
Claims on Sovereigns	1,449,502	-	1,449,502	1,445,502	-
Claims on non-Central Government public sector entities. (PSE's)	244,548	-	244,548	244,548	-
Claims on multilateral development banks	-	-	-	-	-
Claims on banks	170,216	-	170,216	118,410	52,315
Claims on securities firms	-	-	-	-	-
Claims on Corporate & Government Related Entities	-	12,077,326	12,077,326	9,545,013	7,171,661
Claims included in the regulatory retail portfolio	-	941,781	941,781	747,496	549,153
Claims to secured by residency property	-	827,847	827,847	827,803	577,583
Claims secured by commercial real estate	-	2,406,862	2,406,862	2,245,820	1,945,820

Past due loans	-	1,853,813	1,853,813	954,316	1,142,618
High risk categories	-	-	-	-	-
Other assets	1,550,562	1,402,603	2,953,165	2,721,375	1,261,721
Claims on securitized assets	-	-	-	-	-
Credit derivatives (Banks Selling protection)	-	-	-	-	-
TOTAL CLAIMS	**3,414,828**	**19,510,233**	**22,925,060**	**18,850,284**	**12,700,872**

*Rated includes Sovereigns and Non Commercial PSEs

14. Credit Risk Mitigation

7 (a) - Qualitative Disclosures

- **Policies and processes for collateral valuation and management**: CBI uses the comprehensive approach for collateral valuation, which is in compliance to CBUAE guidelines in this regard. Under this approach, the bank reduces its credit exposure while calculating capital requirements to the extent of mitigation provided by the eligible financial collateral. 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 CBUAE guidelines. These adjusted amounts for collateral are reduced from the exposure to compute the capital charge based on the applicable risk weights.
- **Description of the main types of collateral taken by the bank**: CBI determines the appropriate collateral for each facility based on the type of product and counterparty. The main types of collaterals taken by the bank currently are equities, fixed deposits under lien and cash margin.

Table 7 (b) - Credit Risk Mitigation – Standardized Approach as on 31st December 2020 (AED'000)

Credit Risk Mitigation – Standardized Approach as on 31st December 2020	
Particulars	**Exposures**
Net Exposure after Credit Conversion Factor prior to Credit Risk Mitigation	**18,850,284**
Less: Exposure covered by on-balance sheet netting	0
Less: Exposures covered by Eligible Financial Collateral	2,737,798
Less: Exposures covered by Guarantees [1]	12,421
Less: Exposures covered by Credit Derivatives	0
Net Exposures after Credit Conversion Factor & Credit Risk Mitigation	**16,100,065**
Risk Weighted Assets	**12,700,872**

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

Credit Risk Mitigation (AED'000)

Particulars	Amount
Eligible Financial Collateral	2,737,798
Bank Guarantees Gross	12,421
Total	**2,750,219**

15. Market Risk Related Disclosures

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

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

Table 10 - Total Capital Requirement for Market Risk under Standardized Approach as on 31st December 2020

Total Capital Requirement For Market Risk Under Standardized Approach as on 31st December 2020	
Market Risk	**Amount in AED'000s**
Interest rate risk	786
Equity position risk	-
Foreign exchange risk	103
Commodity risk	-
Options Risk	-
Total Capital Requirement	**889**

16. Equity position in the Banking Book

Qualitative Disclosures

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

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

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

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

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

As at 31st December 2020, the Bank's total equity investment portfolio in the banking book amounted to AED 35,771/- (AED in 000's), 38.4% of which represents quoted investments

Table 13 (b) – Quantitative Disclosures

(AED 000's)

Type	2020		2019	
	Publicly Traded	Privately Held	Publicly Traded	Privately Held
Equities	13,752	**22,019**	14,475	33,116
Collective investment schemes				
Any other investment				8,019
Total	**13,752**	**22,019**	**14,475**	**41,135**

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

Gains (Losses)	Amount
Realized gains (losses) from sales and liquidations	0
*Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	(11,820)
**Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account	0
Total	**(11,820)**

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

(AED 000's)

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

Capital Requirements by Equity Groupings

	(AED 000's)
Grouping	**Amount**
Strategic investments	-
Fair Value through Other Comprehensive Income (FVTOCI)	6,975.3
Held for trading	-
Total capital requirement	

17. Interest Rate Risk in Banking Book (IRRBB)

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability, cash flows or the fair values of financial instruments. Interest Rate Risk in the Banking Book (IRRBB) is defined as the exposure of the non-trading financial instruments to interest rates. The Bank is exposed to interest rate risk 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.

14: Interest Rate Risk in the Banking Book as of 31st December 2020

For measuring the overall interest sensitivity in the banking book, CBI conducts stress tests on the rate sensitive assets and liabilities by simulating 200 basis points parallel shifts to the yield curve and assessing the impact on its Net Interest Income and Capital. The following impact on the net interest income and regulatory capital for the year of a movement in interest yield curves as at 31/12/2020

Shift in Yield Curves	Net Interest Income (AED'000)	Capital Base
(+ /-) 200 basis point	36,237	Decrease/Increase by 1.57%

18. Operational Risk related Disclosures

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

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

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

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

CBI is planning to implement the operational risk system (ORS) during the FY2021-22. The ORS will be used to capture, analyze and report loss/incident data and is mapped to all seven risk categories across all eight business lines. ORS also captures RCSA's and KRI's for all divisions of the bank and also assesses the respective tool(s) results.

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

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

	AED'000
Operational Risk – 31st December 2020	
Operational Risk	**Risk Weighted Assets**
Standardized Approach	1,489,725

19. Qualitative Disclosure on Remuneration

For the executives and managers, the Bank has a salary / compensation policy which is decided by the Board of Directors. This Policy is aligned to the business strategy, objectives, values, and risk appetite and risk governance of CBI.

The compensation usually consists of a fixed component and a variable component in the form of performance based annual bonuses. The variable component is based on a well-defined, system based performance appraisal of each individual on an annual basis. Prudent risk management is a key element in assessing employee performance as part of the performance review process. A range of measures are considered to assess performance including the overall Risk Profile, Credit Risk, Regulatory Risk, Operational Risk and Market Risk.

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