Commercial Bank International

Basel III – Pillar 3 Disclosures
For the Year Ended
31 December 2019

Basel III – Pillar 3 Disclosures
For the Year Ended 31st December 2019

Date of Submission to CBUAE: March 2020

Reviewed & Approved By:

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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 Q2, 2020 for the previous quarter/year's figures and every quarter/year going forward.

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 2019. 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 2018

<table>
<tr><th colspan="8">Basis of Consolidation</th></tr>
<tr><th>Subsidiaries</th><th>Country of Incorporation</th><th>% Ownership</th><th>Description</th><th>Accounting Treatment</th><th>Surplus Capital</th><th>Capital Deficiencies</th><th>Total Interests</th></tr>
<tr><td>International Financial Brokerage (Note)</td><td>U.A.E.</td><td>99.4%</td><td>Brokerage for share trading</td><td>Fully consolidated for both Accounting (Annual Financial Statements) and Regulatory purpose (Basel III Reporting)</td><td>N.A</td><td>N.A</td><td>N.A</td></tr>
<tr><td>Takamul Real Estate</td><td>U.A.E.</td><td>100.0%</td><td>Developments, Buying, Selling, Leasing & Management of Real Estate Property</td><td rowspan="3">• Fully consolidated for Accounting (Annual Financial Statements)
• Deconsolidated for Regulatory Reporting (Basel III)</td><td>N.A</td><td>N.A</td><td>N.A</td></tr>
<tr><td>Al Khaleejiah Property Investments LLC</td><td>UAE</td><td>52.8%</td><td>Real estate Developments & Investments</td><td>N.A</td><td>N.A</td><td>N.A</td></tr>
<tr><td>Al Caribi Development Limited</td><td>Antigua and Barbuda</td><td>95.0%</td><td>Real estate Developments & Investments</td><td>N.A</td><td>N.A</td><td>N.A</td></tr>
<tr><td>CBI Financial Services Limited</td><td>UAE</td><td>100.0%</td><td>SPV</td><td>Fully-Consolidated</td><td>N.A</td><td>N.A</td><td>N.A</td></tr>
<tr><td>CBI Tier 1 Private Ltd</td><td>UAE</td><td>100.0%</td><td>SPV</td><td>Fully-Consolidated</td><td>N.A</td><td>N.A</td><td>N.A</td></tr>
<tr><td colspan="8">Significant Investments – NIL</td></tr>
</table>

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, 2019.

Amount '000s

Capital Base		2,388,986
1	**Common Equity Tier 1 (CET1) Capital**	**1,754,694**
1.1	Share Capital	1,737,383
1.2	Share premium account	
1.3	Eligible Reserves	227,017
1.4	Retained Earnings / (-) Loss	-148,550
1.5	Eligible amount of minority interest	312
1.6	Capital shortfall if any	
	CET1 Capital before regulatory adjustments and threshold deduction	**1,816,162**
1.7	Less : Regulatory deductions	61,468
1.8	Less : Threshold deductions	
	Total CET1 Capital after regulatory adjustments and threshold deduction	1,754,694
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**	**175,167**
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	175,167

The total capital base reported as per Audited Financials as of 31st Dec 2019 – AED 2,388,986K

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

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

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 and Credit Concentration risk 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 2019, 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 2018.

	Minimum requirement 2019	**CBI Dec 2019**
CET1 capital ratio	**7.0%**	**11.31%**
Tier 1 capital ratio	**8.5%**	**14.27%**
Total capital ratio	**10.5%**	**15.39%**
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. The following considerations are detailed in Internal Capital Adequacy Assessment Process (ICAAP):

- The development of capital management strategy, which includes levels of capital buffers, contingent plans, the availability of capital deployed and the various forms of capital instruments; and
- Simulating its capital measures using stress and scenario testing that includes the possibility of variability from planned outcomes, unexpected scenarios, and the impact of concentrations.

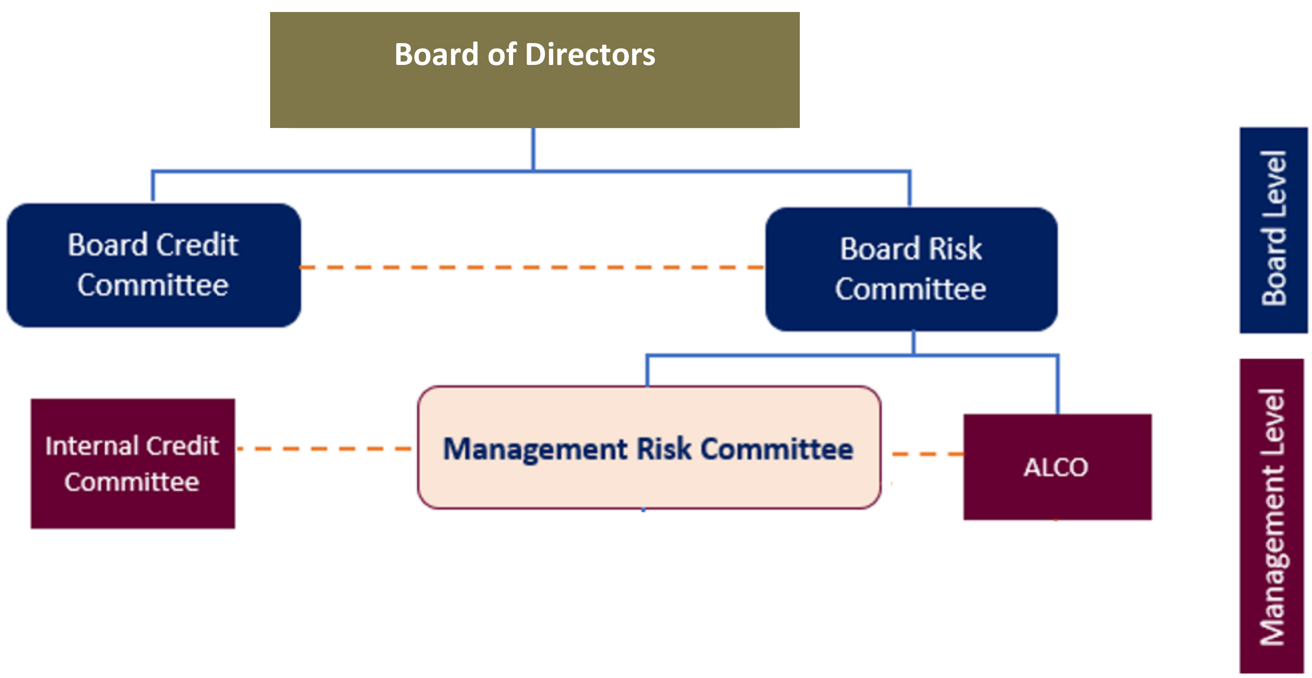
6. Risk Governance

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 these reports, the underlying risks in different areas are analyzed and presented to the senior management for making business decisions. The Risk report, 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 implemented the system for ECL (Expected Credit Loss) calculation based on IFRS 9 and IFRS9 ECL disclosures are available in Annual Financial Report 2019.

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 while the remaining will apply to the bank's entire positions. The bank currently does not hold trading positions, in line with its risk appetite.

9. Operational Risk

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

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.

CBI ICAAP ratio under Pillar 2 requirements for the year 2020 is 14.08%.

Table (3b) - Capital Adequacy as on 31st December 2019 – Basel III

Quantitative Disclosures - Capital Adequacy as on 31st December 2019				
Capital Requirements		**RWA**	**Capital Charge**	**Capital Ratio (%)**
1	Credit Risk - Standardised Approach	14,013,333	1,821,733	
2	Market Risk - Standardised Approach	10,594	1,377	
3	Operational Risk	1,494,604	194,299	
	a. Basic indicator approach	-	-	
	b. Standardised approach/ASA	1,494,604	194,299	
	c. Advanced Measurement Approach	-	-	
	Total Capital requirements	**15,518,532**	**2,017,409**	
	Capital Ratio			**15.39%**
	a. Total for Top consolidated Group			15.39%
	b. Tier 1 ratio only for top consolidated Group			14.27%
	c. CET1 ratio only for top consolidated Group			11.31%

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.

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.

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortized costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

The Group has reported the Expected Credit Loss in compliance with IFRS9 standards in the annual report 2019.

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. Risk Analytics

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

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

Partial adoption of foundation IRB/advanced IRB -

Bank is following the Standardized approach currently.

Approach	Description of exposures	Plans and timing of migration to implement fully higher approach
Standardized Approach	Bank is currently following Standardized approach for credit, market risk, and operational risk to calculate CAR under guidelines stipulated by CBUAE under the framework of Pillar I of Basel III guidelines.	
Foundation IRB	Internal Rating system named 'Risk Analytics' from Moody's Analytics has been implemented in 2012 and system is going live. Migration to FIRB will be based on the CBUAE capital management policies and timing.	
Advanced IRB	As per CBUAE 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 'Risk Analytics' system, one of the well-known solution for risk rating from 'Moody's Analytics' to capture, analyze and store financial and non-financial borrower and facility information.

The Bank 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 2019 (AED'000)

Currency Type	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded	Total
Foreign Currency	2,229,858	1,240,350	3,470,208	-	1,652,340	454,563	2,106,903	5,577,111
AED	10,345,054	-	10,345,054	1,997,163	270,371	3,217,644	5,485,179	15,830,233
Total	**12,574,912**	**1,240,350**	**13,815,262**	**1,997,163**	**1,922,711**	**3,672,208**	**7,592,082**	**21,407,344**

Table 4 (c) - Gross Credit Exposures by Geography as on 31st December 2019

(AED 000's)

Geographic Distribution	Loans	Debt Securities	Total Funded	Commitments	Acceptances	Other Off-Balance Sheet exposures	Total Non-Funded	Total
United Arab Emirates	12,200,585	376,492	12,577,077	1,982,471	1,692,804	3,629,942	7,305,217	19,882,294
GCC excluding UAE	2,508	863,858	866,366	14,692	0	9,749	24,441	890,807
Arab League (excluding GCC)	4,079	0	4,079	0	0	10,248	10,248	14,326
Asia	95,055	0	95,055	0	229,907	0	229,907	324,962
Africa	0	0	0	0	0	20,986	20,986	20,986
North America	0	0	0	0	0	0	0	0
South America	0	0	0	0	0	0	0	0
Caribbean	155,290	0	155,290	0	0	0	0	155,290
Europe	30,662	0	30,662	0	0	1,284	1,284	31,946
Australia	0	0	0	0	0	0	0	0
Others	86,733	0	86,733	0	0	0	0	86,733
Total	**12,574,912**	**1,240,350**	**13,815,262**	**1,997,163**	**1,922,711**	**3,672,208**	**7,592,082**	21,407,344

Table 4(d) - Gross Credit Exposure by Industry Segment as on 31st December 2019

(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	527	-	901	1,427	1,428
Crude Oil, Gas, Mining & Quarrying2	-	-	-	-	-	459	459	459
Manufacturing3	654,645	-	654,645	295,952	180,116	286,556	762,624	1,417,269
Electricity& Water	386,921	200,738	587,659	1,606	-	58,269	59,875	647,534
Construction 4	941,720	-	941,720	496,549	190,687	2,624,852	3,312,088	4,253,808
Trade	1,931,504	-	1,931,504	489,977	1,527,040	196,044	2,213,061	4,144,565
Transport, Storage & Communication6	357,568	-	357,568	14,266	-	27,691	41,957	399,525
Financial Institutions 7	86,402	-	86,402	-	-	159,399	159,399	245,801
Services8	3,546,833	72,813	3,619,647	308,800	22,933	309,565	641,297	4,260,944
Government9	-	966,798	966,798	41,755	-	-	41,755	1,008,553
Retail/Consumer banking1o	1,013,174	-	1,013,174	204,713	-	1,207	205,919	1,219,093
All Others and Real Estate	3,656,145	-	3,656,145	143,019	1,936	7,265	152,220	3,808,365
Total	12,574,912	1,240,350	13,815,262	1,997,163	1,922,711	3,672,208	7,592,082	21,407,344

Table 4(e) - Gross Credit Exposures by Residual Contractual Maturity as on 31st December 2019

(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	1,753,914		1,753,914	859,508	547,548	2,509,693	3,916,749
3 months to one year	2,223,250	278,939	2,502,189	620,794	1,375,163	954,430	2,950,386
One to five years	3,576,948	353,418	3,930,366	490,758		208,076	698,833
Over five years	5,020,800	607,993	5,628,793	26,104		9	26,113
Grand Total	**12,574,912**	**1,240,350**	**12,061,348**	**1,997,163**	**1,922,711**	**3,672,208**	**3,675,333**

Table 4(f) - Impaired Loans by Industry Segment as on 31st December 2019 (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
Crude Oil, Gas, Mining & Quarrying2	-	-	-	-		-
Manufacturing3	71	88,352	88,422	24,218		64204
Electricity& Water	-	-	-	-		-
Construction 4	14,345	237,224	251,569	178,730		72839
Trade5	1,355	568,310	569,665	276,669		292996
Transport, Storage & Communication6	30,691	15,099	45,791	45,586		205
Financial Institutions 7	-	-	-	-		-
Services8	56,862	321,256	378,118	82,122		295,556
Government9	-	-	-	-		-
Retail/consumer banking1oans	15,044	45,139	60,183	23,710		36473
All Others / Real estate	969	226,094	227,063	30,897		196166
Grand Total	**119,338**	**1,324,521**	**1,620,812**	**661,931**	**177,559**	958,881

177,559
781,322

*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 2019

(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	89,787	1,501,474	1,591,261	632,380		138,685	63,243	958,881
GCC (excluding UAE)								
Arab League (excluding GCC)								
Asia	29,551		29,551	29,551				0
Africa								
North America								
South America								
Caribbean								
Europe								
Australia								
Others								
Grand Total	**119,338**	**1,501,474**	**1,620,812**	**661,931**	**177,559**	**138,685**	**63,243**	**958,881**
Less : General Provision (ECL Stage 1 & 2)								177,559
Total Impaired Assets Net of Total ECL								**781,322**

Table 4(h) - Reconciliation of Changes in Provision for the period – 1st January 2019 to 31st December 2019 (AED'000)

Particulars	ECL Allowance 31/12/2019
Balance at 1 January 2019 (ECL Opening as per IFRS 9)	**557,351**
Add: Charge for the year	
Specific Provisions (ECL Stage 3)	461,473
General Provisions (ECL Stage 1 and Stage 2)	-90,790
Less: Write-off of impaired loans	-25,302
Less: Recovery of loans previously written off	0
Less: Write back / Recovery of loan loss provisions	-63,243
Less: Adjustments of loan loss provisions	0
Balance of provision for impaired loans as at 31 December 2019	**839,489**

Table 4(i) - Portfolio as per Standardized Approach as on 31st December 2019

					(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	2,352,558	2,352,558	0	2,348,478	0
Claims on Non Central Government public sector entities. (PSE's)	199,386	199,386	0	199,386	0
Claims on multilateral development banks	0	0	0	0	0
Claims on banks	313,634	313,634	0	251,194	97,267
Claims on securities firms	0	0	0	0	0
Claims on Corporate & Government Related Entities	14,091,711	13,955,711	2,074,223	10,932,451	8,884,041
Claims included in the regulatory retail portfolio	1,237,520	1,237,251	31,682	1,052,426	779,111
Claims to secured by residency property	989,434	988,715	0	988,671	448,680
Claims secured by commercial real estate	2,210,129	2,210,129	300,012	2,091,273	1,791,261
Past due loans	1,442,575	677,968	41,817	665,875	842,927
High risk categories	0	0	0	0	0
Other assets	2,573,886	2,409,023	0	2,409,023	1,170,047
Claims on securitized assets	0	0	0	0	0
Credit derivatives (Banks Selling protection)	0	0	0	0	0
Total Claims	**25,410,833**	**24,344,375**	**2,447,734**	**20,938,778**	**14,013,333**

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 2019

AED '000

Asset Class	On & Off BS Exposure Before CCF & CRM			On & Off BS Net exposure after CCF & CRM	Risk Weighted Assets
	Rated	Unrated	Total		
Claims on Sovereigns	2,352,558	0	2,352,558	2,348,478	0
Claims on non-Central Government public sector entities. (PSE's)	199,386	0	199,386	199,386	0
Claims on multilateral development banks	0	0	0	0	0
Claims on banks	313,634	0	313,634	251,194	97,267
Claims on securities firms	0	0	0	0	0
Claims on Corporate & Government Related Entities	33,734	14,057,976	14,091,711	10,932,451	8,884,041
Claims included in the regulatory retail portfolio	0	1,237,520	1,237,520	1,052,426	779,111
Claims to secured by residency property	0	989,434	989,434	988,671	448,680

Claims secured by commercial real estate	0	2,210,129	2,210,129	2,091,273	1,791,261
Past due loans	0	1,442,575	1,442,575	665,875	842,927
High risk categories	0	0	0	0	0
Other assets	1,240,350	1,333,536	2,573,886	2,409,023	1,170,047
Claims on securitized assets	0	0	0	0	0
Credit derivatives (Banks Selling protection)	0	0	0	0	0
TOTAL CLAIMS	**4,139,662**	**21,271,170**	**25,410,833**	**20,938,778**	**14,013,333**

*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 2019 (AED'000)

Credit Risk Mitigation – Standardized Approach as on 31st December 2019	
Particulars	**Exposures**
Net Exposure after Credit Conversion Factor prior to Credit Risk Mitigation	**20,938,778**
Less: Exposure covered by on-balance sheet netting	0
Less: Exposures covered by Eligible Financial Collateral	2,424,971
Less: Exposures covered by Guarantees [1]	22,763
Less: Exposures covered by Credit Derivatives	0
Net Exposures after Credit Conversion Factor & Credit Risk Mitigation	**18,491,044**
Risk Weighted Assets	**14,013,333**

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

Credit Risk Mitigation (AED'000)

Particulars	Amount
Eligible Financial Collateral	2,424,971
Bank Guarantees Gross	22,763
Total	**2,447,734**

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 2019

Total Capital Requirement For Market Risk Under Standardized Approach as on 31st December 2019	
Market Risk	**Amount in AED'000s**
Interest rate risk	1,027
Equity position risk	-
Foreign exchange risk	85
Commodity risk	-
Options Risk	-
Total Capital Requirement	**1,112**

16. Equity position in the Banking Book

13 (a) Qualitative Disclosures

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

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

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

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

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

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

As at 31st December 2019, the Bank's total equity investment portfolio in the banking book amounted to AED 47,591/- (AED in 000's), 30.4% of which represents quoted investments

Table 13 (b) – Quantitative Disclosures

(AED 000's)

Type	2019		2018	
	Publicly Traded	Privately Held	Publicly Traded	Privately Held
Equities	14,475	33,116	16,004	42,828
Collective investment schemes				
Any other investment		8,019		12,229
Total	**14,475**	**41,135**	**16,004**	**55,057**

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	(11,039)
**Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account	0
Total	**(11,039)**

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	5,324
Fair Value through Other Comprehensive Income (FVTOCI)	50,286
Held for trading	0
Total capital requirement	**55,610**

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 as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period.

14: Interest Rate Risk in the Banking Book as of 31st December 2019

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 31/12/2019

Shift in Yield Curves	Net Interest Income (AED'000)	Capital Base
(+ /-) 200 basis point	36,952	Decrease/Increase by 1.55%

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

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

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

	AED'000
Operational Risk – 31st December 2018	
Operational Risk	**Risk Weighted Assets**
Standardized Approach	1,494,604

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.