بنك دبي التجاري
Commercial Bank of Dubai

Basel III – Pillar III Disclosures

For The Year Ended 31 December 2021

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1. Introduction

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates (U.A.E.) in 1969 and is registered as a Public Joint Shareholding Company (PJSC) in accordance with Federal Law No. 2 of 2015. The Bank is listed on the Dubai Financial Market. The Bank's principal activity is commercial and retail banking. The registered address of the Bank is CBD Head Office, Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

2. Purpose and basis of preparation

The Central Bank of the UAE ("CBUAE") supervises Commercial Bank of Dubai ("the Bank") and its subsidiaries (together referred as the "Group") on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital requirements are computed at Group level using the Basel III framework of the Basel Committee on Banking Supervision ("Basel Committee"), after applying the amendments advised by the CBUAE, within national discretion. The Basel framework is structured around three pillars as follows:

- Pillar I prescribes the minimum capital requirements;
- Pillar II addresses the associated supervisory review process; and
- Pillar III specifies further public disclosure requirements in respect of their capital and risk profile.

The disclosures have been prepared in line with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (CBUAE/BSD/N/2020/4980 and CBUAE CBUAE/BSD/N/2021/5508) published in November 2020 and November 21 respectively.

The annual Pillar III report of the Group for the year ended 31 December 2021 comprises detailed information on the underlying drivers of risk-weighted assets (RWA), capital of the Bank, its wholly owned subsidiaries (together referred to as "the Group") and the Group's interest in an associate. The report should be read in conjunction with the Group's Audited Financial Statements as at 31 December 2021.The direct subsidiaries and associate of the Group are as follows:

Legal entity	Group percentage Shareholding	Nature of business	Country of incorporation	Description of Accounting / Regulatory treatment
CBD Financial Services LLC	100%	Brokerage Services	Dubai, UAE	Consolidation
CBD Employment Services One Person Company LLC	100%	Supply of manpower services	Dubai, UAE	Consolidation
Attijari Properties LLC	100%	Property management services	Dubai, UAE	Consolidation
CBD (Cayman) Limited	100%	Issuance of debt securities	Cayman Islands	Consolidation
CBD (Cayman II) Limited	100%	Transact and negotiate derivative agreements	Cayman Islands	Consolidation
VS 1897 (Cayman) Limited	100%	To manage investments acquired in settlement of debt	Cayman Islands	Consolidation
National General Insurance Co. (PJSC)	17.8%	Life and general insurance business	Dubai, UAE	Consolidation – Equity Method

3. Overview of Pillar III

Pillar III complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing disclosure requirements which allow market participants to access specified information on the scope of application of Basel III, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Disclosures comprises of quantitative and qualitative information and are provided at the consolidated level.

The CBUAE issued Basel III capital regulations, which came into effect from February 1st, 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ("CET1"), Additional Tier 1 ("AT1") and Total Capital. Additional capital buffers (Capital Conservation Buffer and Countercyclical Capital Buffer – maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

Following are the changes in revised standards which have been adopted either prior to or during 2021.

- The Tier Capital Supply Standard
- Tier Capital Instruments Standard
- Pillar II Standard: Internal Capital Adequacy Assessment Procedures (ICAAP)
- Credit Risk, Market Risk and Operational Risk
- Equity Investments in Funds, Securitization, Counterparty Credit Risk and Leverage Ratio

Credit Value Adjustment for Pillar I and III will be effective from 30 June 2022.

The purpose of Pillar III – Market Discipline is to complement the minimum Capital requirements (Pillar I) and the supervisory review process (Pillar II). The CBUAE supports the market discipline by developing a set of disclosures requirements which will allow market participants to access key information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy of the Group. The revised Pillar III disclosures, based on the common framework, are an effective means of informing the market about the risks faced by the Bank, and provide a consistent and understandable disclosure framework that enhances transparency and improve comparability and consistency.

In compliance with the CBUAE Basel III standards and guidelines, these disclosures includes qualitative and quantitative information of the Group's risk management objectives and policies, risk assessment process, capital management and capital adequacy. The Group's Pillar III disclosures are governed by the disclosure policy framework in line with CBUAE Basel III standards.

3.1 Policy and verification

The Bank has operated within a framework of internal controls and procedures for accessing the appropriateness of this disclosure. As 31 December 2021 represents the Bank's first Pillar III disclosures, no comparatives are included.

This Pillar III disclosure have been subject to review from internal auditors and appropriate senior management within the Group and attested by the Board Executive Committee.

We confirm that the Bank's Pillar III disclosures, to the best of our knowledge, comply with the revised CBUAE Pillar III market disclosures requirements and have been prepared in compliance with the Bank's internal control framework.

3.2 Implementation of Basel III standards and guidelines

The Group has adopted the standardized approach for Credit Risk, Counterparty Credit Risk and Market Risk, mandate-based approach (MBA) for equity investments in funds held in the banking book and the basic indicator approach for Operational Risk (Pillar I) for regulatory reporting purposes. CVA capital charge is yet to be adopted, which becomes effective from 30 June 2022.

The Group also assigns capital on other than Pillar I risk categories, for 'Interest rate risk on banking book' and for 'Business risk', within the Pillar II framework.

4. Highlights

In line with Article 2.2. of Capital Adequacy Regulation, CBUAE requires banks to apply the following minimum requirement:

1. CET1 must be at least 7% of risk weighted assets (RWA);
2. Tier 1 Capital must be at least 8.5% of RWA;
3. Total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA.
4. In addition to the minimum CET1 capital of 7% of RWA, banks must maintain a capital conservation buffer (CCB) and Countercyclical Capital Buffer (CCyB), maximum of 2.5% of RWAs on the form of CET1 capital.
5. All banks must maintain a leverage ratio of at least 3.0%.

The Group has complied with all the externally imposed capital requirements and is well capitalized with low leverage and high levels of loss-absorbing capacity. As at 31 December 2021:

- The Group's Common Equity Tier 1 (CET1) ratio of 12.13 per cent, Tier 1 capital Ratio of 14.66 per cent, Capital Adequacy Ratio of 15.82[1] per cent, are all well ahead of the regulatory requirements.
- The Group's leverage ratio of 10.18 per cent is well ahead of the current regulatory requirement.
- The Group continues to manage its balance sheet proactively, with focus on sound RWA management.

[1] The above capital adequacy ratios have been calculated in line with Basel and CBUAE guidelines. The ratios include proposed dividend amounts which are subject to shareholders' approval at the Annual General Meeting.

5. Key Metrics (KM1)

Key prudential metrics related to regulatory capital have been included in the following table:

	Available capital (amounts)	31 Dec 2021 (AED '000s)
1	Common Equity Tier 1 (CET1)	10,578,131
1a	Fully loaded ECL accounting model	10,446,609
2	Tier 1	12,781,931
2a	Fully loaded ECL accounting model Tier 1	12,650,409
3	Total capital	13,790,908
3a	Fully loaded ECL accounting model total capital	13,659,386
	Risk-weighted assets (amounts)	
4	Total risk-weighted assets (RWA)	87,196,454
	Risk-based capital ratios as a percentage of RWA	
5	Common Equity Tier 1 ratio (%)	12.13%
5a	Fully loaded ECL accounting model CET1 (%)	11.97%
6	Tier 1 ratio (%)	14.66%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	14.50%
7	Total capital ratio (%)	15.82%
7a	Fully loaded ECL accounting model total capital ratio (%)	15.66%
	Additional CET1 buffer requirements as a percentage of RWA	
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%
9	Countercyclical buffer requirement (%)	0.00%
10	Bank D-SIB additional requirements (%)	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.13%
	Leverage Ratio	
13	Total leverage ratio measure	125,577,380
14	Leverage ratio (%) (row 2/row 13)	10.18%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	10.07%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	10.18%
	Liquidity Coverage Ratio	
15	Total HQLA	-
16	Total net cash outflow	-
17	LCR ratio (%)	-
	Net Stable Funding Ratio	
18	Total available stable funding	-
19	Total required stable funding	-
20	NSFR ratio (%)	-
	ELAR	
21	Total HQLA	18,847,145
22	Total liabilities	100,745,398
23	Eligible Liquid Assets Ratio (ELAR) (%)	18.71%
	ASRR	
24	Total available stable funding	90,833,058
25	Total Advances	79,932,460
26	Advances to Stable Resources Ratio (%)	88.00%

[1] "Fully Loaded" mean bank's regulatory capital compared with a situation where the transitional arrangement had not been applied. CBUAE introduced transitional arrangements as per circular no. 04/2020 "Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements".

6. Overview of risk management and Risk Weighted Assets (OVA)

6.1 Risk Governance

The Board of Directors (the "Board") has the overall responsibility for the operations and the financial stability of the Group, and ensures that the interests of shareholders, depositors, creditors, employees and other stakeholders, including the banking regulators and supervisors, are addressed. The Board is responsible for strategic direction, management oversight and adequate control with the ultimate objective of promoting the success and long-term value of the Bank. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. Additionally, it is responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures as well as management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by various Board Committees, namely Board Executive Committee (BEC), Board Risk and Compliance Committee, Board Audit Committee (BAC) and Remuneration and Nomination Committee (REMCO). The Internal Sharia Supervision Committee (ISSC) in accordance with the requirements stipulated in the relevant laws, regulations and standards covers the Sharia supervision of all business, activities, products, services, contracts, documents and charters of the Company's business, policies and accounting standards, operations and activities.

Management actively manages risk, primarily through the Risk Department with oversight by the Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Credit Committee (CC), Project Investment Committee (PIC), Compliance Steering Committee (CSC), Human Resources Committee (HRC) and Operational Risk Management Committee (ORMC).

6.2 Control Environment

a) Group Risk

Group Risk Department comprises credit, market and operational units. Its responsibilities include the following:

- Developing a strategy, policy and framework for risk management such that these are aligned with business requirements;
- Providing support to the Group in implementation of the framework;
- Bringing together analysis of risk concentrations and sensitivities across the Group;
- Acting as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO;
- Financial restructuring & recovery and business management and governance; and
- Providing independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

b) Internal Audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the BAC or Management.

It is led by the Chief Internal Audit Officer who reports to the BAC of the Board of Directors, with administrative reporting to the Chief Executive Officer of the Group.
To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel. The Internal Audit Charter empowers it to have full, free and effective access at all reasonable times to all records, documents and employees of the Group. Internal Audit has direct access to the Chairman of the BAC and Chief Executive Officer of the Group.

To determine whether the Internal Audit Function is functioning effectively, the BAC shall:

- Assess the appropriateness of the Internal Audit Charter once each year;
- Assess the adequacy of resources available, both in terms of skills and funding once each year; and
- Sponsor external assessments, at least once every five (5) years, by a qualified, independent reviewer from outside the Group.

c) Internal Control

Board of Directors and Management are responsible for developing and maintaining the existence of a sound Internal Control System and procedures that meet international standards and fulfill the requirements of the Group's management and external regulatory bodies. The internal control system should be capable of ensuring the achievement of the following:

- Accuracy and integrity of financial and operational statements issued by the Group;
- Effectiveness and efficiency of the Group's operational activities;
- Effectiveness of measures and procedures set to safeguard the Group's assets and properties; and
- Compatibility with laws, legislations and regulations in force as well as policies pertinent to internal operational procedures.

Executive management constantly monitors and assesses the efficiency and effectiveness of internal control procedures and their ability to achieve stated objectives and their furtherance and enhancement.

The processes and responsibilities of the Internal Control functions include but not limited to:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enabling the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Monitoring of operational activities and overseeing operational controls being exercised to ensure that these are timely and effective.

d) Compliance and Fraud prevention

The process of monitoring compliance is an independent task which aims at ensuring that the Group is in compliance with all applicable laws, regulations, instructions, directives, codes of conduct and sound banking standards and practices as issued by relevant authorities.

The Board of Directors takes necessary measures to further strengthen the values of integrity and sound professional conduct within the Group by promoting a culture of compliance in letter and spirit of applicable laws, regulations, instructions and standards. The mission and role of compliance, AML and Fraud prevention functions are:

- Ensuring compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- Ensuring senior management is fully informed of significant compliance issues and plans for resolution;
- Contributing to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- Aligning annual compliance plans with business strategies and goals; and
- Meet regulatory expectations, Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) requirements.

Fraud prevention

The Group has a dedicated Fraud Prevention and Investigation Unit that assists in identification, detection, and verification of potential or actual fraud incidents including quantification and recoupment of any losses sustained as a result of such incident. The purpose is to manage susceptibility of Group's assets and processes to fraud risk with a view to reducing it and to raise the level of fraud awareness amongst employees and other stakeholders.

e) Whistle Blowing

A set of arrangements has been designed to enable employees to confidentially report concerns about any potential violations, enabling the investigation and follow up of such concerns independently and discreetly through the whistle blowing policy. Such arrangements are supervised by the Board Risk and Compliance Committee and in coordination with the executive management.

6.3 Risk Management

Risk Management is a key constituent of the Group's function. In the Risk Management Objectives and Policies and Financial Risk Management sections of the 2021 Audited Financial Statements, the Group's approach and strategy for managing risk are presented in detail. The section also provides the overarching framework towards the Group's risk management policies, practices, monitoring and governance towards the Group's main activities and significant risks.

The Group has exposure to the following primary risks from financial instruments:

- Credit Risk (refer to page 82 of the Audited Financial Statements 2021)
- Liquidity Risk (refer to page 93 of the Audited Financial Statements 2021)
- Market Risk (refer to page 97 of the Audited Financial Statements 2021)
- Operational Risk (refer to page 101 of the Audited Financial Statements 2021)

6.4 Stress Testing

The Group operates stress testing programs that supports the risk management and capital planning framework. It includes mandatory stress test scenarios required by the CBUAE. Stress testing alerts the Bank's management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur.

6.5 Overview of RWAs (OV1)

The following table provides an overview of RWAs, calculated in accordance with Basel III, by risk type and calculation approach.

	(AED '000s)	RWA	Minimum capital requirements
		31 December 2021	31 December 2021
1	Credit risk (excluding counterparty credit risk) - standardized approach (SA)	79,096,138	8,305,094
6	Counterparty credit risk (CCR) - standardized approach (SA)	1,215,179	127,594
10	Credit valuation adjustment (CVA)	-	-
12	Equity investments in funds - look-through approach	-	-
13	Equity investments in funds - mandate-based approach	406,903	42,725
14	Equity investments in funds – fall back approach	-	-
15	Settlement risk	-	-
16	Securitization exposures in the banking book	-	-
20	Market risk - standardized approach (SA)	731,729	76,832
23	Operational risk	5,746,505	603,383
26	**Total (1+6+10+12+13+14+15+16+20+23)**	**87,196,454**	**9,155,628**

Total capital requirement is defined as the sum of Pillar I and Pillar II capital requirements set by the CBUAE for Capital Adequacy. The minimum requirements represents the total capital requirement to be met by CET1.

During Q1 2020, the CBUAE issued a regulation for a 'Prudential Filter' that permits Banks to add back increase in IFRS 9 stage 1 and stage 2 provisions to the regulatory capital over a transition period of 5 years on proportionate basis. The increase in IFRS 9 provision requirements is determined by calculating the difference between the IFRS 9 provision as at December 31, 2019 and the IFRS 9 provision as of the respective reporting date. The proportion of the increase in IFRS 9 provisions that is permitted to be added-back to regulatory capital from 1 January 2020 onwards will be phased out over a 5 year transition period as follows:

Years	2020	2021	2022	2023	2024
Proportion of Provision	100%	100%	75%	50%	25%

6.6 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (Ll1)

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E. In certain instances, regulatory reporting instructions and guidance require that certain assets or liabilities be reported in line items that vary from those used for financial reporting purposes. In other cases, the regulatory reporting format may differ from that used for financial reporting purposes –regulatory reporting formats tend to be much more granular. In either case, when comparing the financial and regulatory financial statements on a line item basis there may be differences between various line items that arise from these differing requirements and reporting formats.

31 December 2021 AED (000s)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with Central Bank	14,667,589	14,667,589	14,667,589	-	-	-	-
Due from banks, net	3,154,599	3,154,599	3,154,599	-	-	-	-
Loans and advances and Islamic financing	76,441,385	76,441,385	76,363,540	-	-	-	77,845
Investment securities	8,991,321	8,991,321	8,989,361	-	-	1,960	-
Investment in an associate	95,051	95,051	95,051	-	-	-	-
Investment properties, net	191,406	191,406	191,406	-	-	-	-
Property and equipment	309,425	309,425	224,357	-	-	-	85,068
Bankers acceptances	7,341,210	7,341,210	7,341,210	-	-	-	-
Other assets, net	3,020,610	3,020,610	2,353,901	666,709	-	666,709	-
Total Assets	**114,212,596**	**114,212,596**	**113,381,014**	**666,709**	-	**668,669**	**162,913**
Liabilities							
Due to banks	6,120,214	6,120,214	-	-	-	-	6,120,214
Customer deposits and Islamic customer deposits	82,721,669	82,721,669	-	-	-	-	82,721,669
Notes and medium term borrowings	2,584,490	2,584,490	-	-	-	-	2,584,490
Due for trade acceptances	7,341,210	7,341,210	-	-	-	-	7,341,210
Other liabilities	1,877,799	1,877,799	-	547,530	-	547,530	1,330,269
Total Liabilities	**100,645,382**	**100,645,382**	-	**547,530**	-	**547,530**	**100,097,852**

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (Ll2)

31 December 2021 (AED 000s)	Total	Items subject to:		
		Credit risk framework	Counterparty credit risk framework	Market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	114,049,683	113,381,014	666,709	668,669
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	547,530	-	547,530	547,530
Total net amount under regulatory scope of consolidation	113,502,153	113,381,014	119,179	121,139
Off-balance sheet amounts	31,775,130	31,775,130	-	-
Differences due to consideration of provisions and interest in suspense	4,025,874	4,025,874	-	-
Derivatives	1,544,960	-	1,544,960	-
Exposure amounts considered for regulatory purposes	**150,848,117**	**149,182,018**	**1,664,139**	**121,139**

6.7 Explanations of differences between accounting and regulatory exposure amounts (LlA)

The major differences between carrying values and amounts considered for regulatory purposes are:

- Off-balance sheet amounts subject to credit risk including undrawn portions of facilities, trade finance commitments and guarantees post conversion factor ('CCF'). Further potential future exposure ('PFE') are added for counterparty credit risk on derivative exposures; and
- Credit risk adjustments, including ECL and interest in suspense (IIS) which are grossed up regulatory exposures

7. Composition of Capital

7.1 Capital Management

The Group's regulator, the Central Bank of the UAE ('CBUAE'), sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and optimize returns for shareholders;
- Comply with regulatory capital requirements set by the Central Bank of the UAE.

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Credit Concentration Risk, Legal Risk, Compliance Risk, Liquidity Risk, Business Risk, Residual Risk, Counterparty Credit Risk and Reputational Risk are all part of the ICAAP.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

The CBUAE supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The capital management section of the 2021 audited Financial Statements sets out the Group's capital resources and adequacy (pages 104-107).

The Group has complied with all the externally imposed capital requirements.

7.2 Composition of Regulatory Capital (CC1)

		31 December 2021
	Common Equity Tier 1 capital: instruments and reserves	**(AED 000s)**
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	5,570,844
2	Retained earnings	5,166,760
3	Accumulated other comprehensive income (and other reserves)	(72,764)
4	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*	-
5	Common share capital issued by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory deductions**	**10,664,840**
	Common Equity Tier 1 capital regulatory adjustments	
7	Prudent valuation adjustments	-
8	Goodwill (net of related tax liability)	85,068
9	Other intangibles including mortgage servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
11	Cash flow hedge reserve	1,641
12	Securitization gain on sale	-
13	Gains and losses due to changes in own credit risk on fair valued liabilities	-
14	Defined benefit pension fund net assets	-
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
20	Amount exceeding 15% threshold	-
21	Of which: significant investments in the common stock of financials	-
22	Of which: deferred tax assets arising from temporary differences	-
23	CBUAE specific regulatory adjustments	-
24	**Total regulatory adjustments to Common Equity Tier 1**	**86,709**
25	**Common Equity Tier 1 capital (CET1)**	**10,578,131**

	Additional Tier 1 capital: instruments	
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	2,203,800
27	OF which: classified as equity under applicable accounting standards	2,203,800
28	Of which: classified as liabilities under applicable accounting standards	-
29	*Directly issued capital instruments subject to phase-out from additional Tier 1*	-
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-
31	*Of which: instruments issued by subsidiaries subject to phase-out*	-
32	Additional Tier 1 capital before regulatory adjustments	**2,203,800**
	Additional Tier 1 capital: regulatory adjustments	
33	Investments in own additional Tier 1 instruments	-
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
36	CBUAE specific regulatory adjustments	-
37	Total regulatory adjustments to additional Tier 1 capital	-
38	**Additional Tier 1 capital (AT1)**	**2,203,800**
39	**Tier 1 capital (T1= CET1 + AT1)**	**12,781,931**
	Tier 2 capital: instruments and provisions	
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
41	*Directly issued capital instruments subject to phase-out from Tier 2*	-
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
43	*Of which: instruments issued by subsidiaries subject to phase-out*	-
44	Provisions	1,008,978
45	**Tier 2 capital before regulatory adjustments**	**1,008,978**
	Tier 2 capital: regulatory adjustments	
46	Investments in own Tier 2 instruments	-
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
49	CBUAE specific regulatory adjustments	-
50	**Total regulatory adjustments to Tier 2 capital**	-
51	**Tier 2 capital (T2)**	**1,008,978**
52	**Total regulatory capital (TC = T1 + T2)**	**13,790,909**
53	**Total risk-weighted assets**	**87,196,454**

	Capital ratios and buffers	
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	**12.13%**
55	**Tier 1 (as a percentage of risk-weighted assets)**	**14.66%**
56	**Total capital (as a percentage of risk-weighted assets)**	**15.82%**
57	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	**2.50%**
58	**Of which: capital conservation buffer requirement**	**2.50%**
59	**Of which: bank-specific countercyclical buffer requirement**	**0.00%**
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	**0.00%**
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	**5.13%**
	The CBUAE Minimum Capital Requirement	
62	Common Equity Tier 1 minimum ratio	7.00%
63	Tier 1 minimum ratio	8.50%
64	Total capital minimum ratio	10.50%
	Amounts below the thresholds for deduction (before risk weighting)	
66	Significant investments in common stock of financial entities	-
68	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	Applicable caps on the inclusion of provisions in Tier 2	
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-
70	Cap on inclusion of provisions in Tier 2 under standardized approach	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
73	*Current cap on CET1 instruments subject to phase-out arrangements*	-
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-
75	*Current cap on AT1 instruments subject to phase-out arrangements*	-
76	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	-
77	*Current cap on T2 instruments subject to phase-out arrangements*	-
78	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	-

7.3 Reconciliation of regulatory capital to balance sheet (CC2)

The following table shows the differences between the scope of accounting consolidation and regulatory consolidation. The table also presents the link between the Bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template (CC1).

31 December 2021	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets	**(AED 000s)**	
Cash and balances with Central Bank	14,667,589	14,667,589
Due from banks, net	3,154,599	3,154,599
Loans and advances and Islamic financing	76,441,385	76,441,385
Investment securities	8,991,321	8,991,321
Investment in an associate	95,051	95,051
Investment properties, net	191,406	191,406
Property and equipment	309,425	309,425
Bankers acceptances	7,341,210	7,341,210
Other assets, net	3,020,610	3,020,610
Total assets	**114,212,596**	**114,212,596**
Liabilities		
Due to banks	6,120,214	6,120,214
Customer deposits and Islamic customer deposits	82,721,669	82,721,669
Notes and medium term borrowings	2,584,490	2,584,490
Due for trade acceptances	7,341,210	7,341,210
Other liabilities	1,877,799	1,877,799
Total liabilities	**100,645,382**	**100,645,382**
Capital		
Share capital	2,802,734	2,802,734
Tier 1 capital notes	2,203,800	2,203,800
Legal and statutory reserve	1,401,447	1,401,447
General reserve	1,328,025	1,328,025
Capital reserve	38,638	38,638
Fair value reserve	(61,174)	(72,764)
Retained earnings	5,853,744	5,113,083
IFRS transitional arrangement	-	131,522
Regulatory deductions and adjustments	-	(164,554)
Eligible general provision	-	1,008,978
Total Capital	**13,567,214**	**13,790,909**

8 Leverage Ratio

8.1 Summary comparison of accounting assets vs leverage ratio exposure (LR1)

The following table reconciles the total assets in the published financial statements to the leverage ratio exposure measure.

		31 December 2021 (AED 000s)
1	Total consolidated assets as per published financial statements	114,212,596
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	1,664,139
9	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	9,700,644
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	-
13	**Leverage ratio exposure measure**	**125,577,380**

8.2 Leverage ratio common disclosure template (LR2)

The following table provides a detailed breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements and buffers.

		31 December 21
On-balance sheet exposures		**(AED 000s)**
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	114,212,596
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-
6	(Asset amounts deducted in determining Tier 1 capital)	-
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**114,212,596**
Derivative exposures		
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	721,353
9	Add-on amounts for PFE associated with *all* derivatives transactions	467,318
10	(Exempted CCP leg of client-cleared trade exposures)	-
11	Adjusted effective notional amount of written credit derivatives	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
13	**Total derivative exposures (sum of rows 8 to 12)**	**1,664,139**
Securities financing transactions		
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
16	CCR exposure for SFT assets	-
17	Agent transaction exposures	-
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	-
Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	31,775,130
20	(Adjustments for conversion to credit equivalent amounts)	(22,074,486)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-
22	**Off-balance sheet items (sum of rows 19 to 21)**	**9,700,644**
Capital and total exposures		
23	**Tier 1 capital**	**12,781,931**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**125,577,380**
Leverage ratio		
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	10.18%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	10.18%
26	CBUAE minimum leverage ratio requirement	3.00%
27	**Applicable leverage buffers**	7.18%

9 Credit Risk

9.1 General qualitative information about credit risk (CRA)

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Group's balances with Central Bank, due from banks, loans and advances and Islamic financing, other financial assets, loan commitments and financial guarantee contracts. For reporting purpose, credit risk on loan commitments and financial guarantee contracts is reported as a component of credit risk on loans and advances and Islamic financing. For risk management purposes, credit risk arising on investment securities held at FVPL is managed independently.

a) Management of credit risk

Credit Committee (CC) manages the credit risk of the Group by continuous review and update of the following:

- Formulating credit policies;
- Establishing the authorization structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk;
- Limiting concentrations of exposure to counterparties, geographies and industries;
- Developing and maintaining the Group's risk grading;
- Developing and maintaining the Group's processes for measuring ECL;
- Reviewing compliance of business units with agreed exposure limits; and
- Providing advice, guidance and specialist skills to business units to promote best practice.

b) Internal credit risk ratings

In order to minimize credit risk, the Group has tasked its credit committee to develop and maintain the Group's credit risk grading to categories exposures according to their degree of risk of default. The Group's credit risk grading framework comprises various categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk increases. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the customer risk profile:

- Payment record and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behavior, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review and where available changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the probability of default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as Economic

Composite Index (ECI), Oil price per barrel (OPB), hotel occupancy and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs. The Group uses different criteria to determine whether credit risk has increased significantly for each obligor. The criteria used are both quantitative changes in PDs as well as qualitative.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increase in credit risk is effective, meaning that significant increase in credit risk is identified before the exposure is defaulted. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Loss Given Default is the loss expected to arise on default, incorporating the impact of forward- looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The Bank estimates LGD based on history of recovery rates and considers the valuation of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.

9.2 Credit quality of assets (CR1)

The table provides a comprehensive picture of the credit quality of the Bank's (on- and off-balance sheet) assets.

31 December 2021 (AED 000s)	Gross carrying values of		Allowances / Impairments	ECL accounting provisions for credit losses		Net values
	Defaulted exposures	Non-defaulted exposures		Specific	General	
Loans	6,102,103	74,363,100	4,023,818	2,765,530	1,258,288	76,441,385
Debt securities	-	8,655,825	-	-	-	8,655,825
Off-balance sheet exposures	279,276	16,816,459	-	-	-	17,095,735
Total	**6,381,379**	**99,835,384**	**4,023,818**	**2,765,530**	**1,258,288**	**102,192,945**

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

The below table identifies the changes in the Bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

		31 December 2021 (AED 000s)
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**5,165,565**
2	Loans and debt securities that have defaulted since the last reporting period	1,660,602
3	Returned to non-default status	(25,465)
4	Amounts written off	(972,423)
5	Other changes	273,824
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**6,102,103**

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

The below supplements the quantitative templates with information on the credit quality of the Bank's assets.

Credit impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators or a backstop if amounts are overdue for 90 days or more.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Default definition

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs or the identification of a significant increase in credit risk.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and based on data developed internally and obtained from external sources

The Group has performed a historical default rate analysis to identify homogeneous segments and further estimated ECL parameters (i.e. PD, LGD and EAD) at similar granularities. To perform a historical default rate analysis, the Group has adopted two separate definitions of default for the non-retail and the retail portfolio.

Please refer note 3 in the annual financial statements for detailed scope and definition of past due and impaired exposure.

Past due exposures not impaired and restructured Financial Assets

As at 31 December 2021, AED 938 million past due exposure above 90 days were not impaired.

As at 31 December 2021, restructured loans constituted AED 1,242 million. Out of which impaired exposure amounting to AED 377 million.

The method used for determining accounting provisions for credit losses and adopting ECL accounting model for categorization of ECL accounting provisions in general and specific categories for standardized approach exposures has been detailed in the note 3 of annual financial statements.

Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The following tables set out the concentration of credit risk by sector, geography and currency.

Concentration of credit risk by sector for 2021:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
Manufacturing	4,387,817	-	239,535	-	-	4,627,352	1,979,898	1,332,329
Construction	5,458,048	-	-	-	-	5,458,048	1,226,942	5,902,260
Real estate	24,814,731	-	-	6,779	-	24,821,510	4,255,423	828,527
Trade	7,599,868	-	-	-	-	7,599,868	3,182,692	9,415,005
Transportation and storage	3,880,144	-	56,280	-	-	3,936,424	117,657	81,758
Services	5,051,121	-	141,066	47,328	-	5,239,515	1,303,159	911,736
Hospitality	2,337,033	-	-	-	-	2,337,033	311,315	67,502
Financial and insurance activities	7,224,430	3,156,655	2,013,557	281,389	95,051	12,771,082	872,845	1,771,656
Government entities	2,059,268	-	4,939,297	-	13,871,485	20,870,050	349,765	94,635
Personal - mortgage	7,454,864	-	-	-	-	7,454,864	-	-
Personal - schematic	5,462,188	-	-	-	-	5,462,188	2,666,848	48,029
Individual loans for business	976,207	-	-	-	-	976,207	250,003	1,785
Others	3,759,484	-	1,266,090	-	4,441,744	9,467,318	1,198,304	946,267
Total carrying amount	**80,465,203**	**3,156,655**	**8,655,825**	**335,496**	**18,408,280**	**111,021,459**	**17,714,851**	**21,401,489**

Concentration of credit risk by geographic location for 2021:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
UAE	76,056,688	197,982	5,640,784	55,944	18,408,280	100,359,678	17,158,691	17,435,768
GCC	1,347,190	208,745	930,336	-	-	2,486,271	16,584	791,190
Middle East	451,233	276,221	-	254,949	-	982,403	330,876	332,808
Europe	585,123	649,463	119,027	124	-	1,353,737	188,489	368,556
USA	4,964	1,470,018	668,271	24,479	-	2,167,732	-	423,581
Asia	969,080	128,148	1,150,634	-	-	2,247,862	19,593	1,970,431
Others	1,050,925	226,078	146,773	-	-	1,423,776	618	79,155
Total carrying amount	**80,465,203**	**3,156,655**	**8,655,825**	**335,496**	**18,408,280**	**111,021,459**	**17,714,851**	**21,401,489**

Concentration of credit risk by currency for 2021:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
AED	62,268,370	-	2,761,320	54,107	17,531,504	82,615,301	13,527,099	11,087,646
Other currencies*	18,196,833	3,156,655	5,894,505	281,389	876,776	28,406,158	4,187,752	10,313,843
Total carrying amount	**80,465,203**	**3,156,655**	**8,655,825**	**335,496**	**18,408,280**	**111,021,459**	**17,714,851**	**21,401,489**

**Majority of assets denominated in other currencies are in USD to which AED is pegged.*

Group Credit exposure by Maturity for 2021

Assets	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No Fixed Maturity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with Central Bank	14,667,589	11,651,241	-	-	-	-	3,016,348
Due from banks, net	3,154,599	2,421,580	73,210	285,761	374,048	-	-
Loans and advances and Islamic financing, net	76,441,385	6,787,082	3,725,212	14,242,581	29,860,839	21,825,671	-
Investment securities	8,991,321	758,716	1,595,551	1,128,681	3,145,531	2,362,842	-
Investment in associate	95,051	-	-	-	-	-	95,051
Investment properties, net	191,406	-	-	-	-	-	191,406
Property and equipment	309,425	-	-	-	-	-	309,425
Bankers acceptances	7,341,210	164,178	1,370,649	5,405,800	304,582	96,001	-
Other assets, net	3,020,610	1,491,257	-	-	-	-	1,529,353
Total assets	**114,212,596**	**23,274,054**	**6,764,622**	**21,062,823**	**33,685,000**	**24,284,514**	**5,141,583**
Liabilities and equity							
Due to banks	6,120,214	1,529,255	974,164	661,669	2,955,126	-	-
Customer deposits and Islamic customer deposits	82,721,669	42,514,907	13,405,746	25,167,648	1,621,182	12,186	-
Notes and medium term borrowings	2,584,490	-	-	551,442	2,033,048	-	-
Due for trade acceptances	7,341,210	164,178	1,370,649	5,405,800	304,582	96,001	-
Other liabilities	1,877,799	1,831,558	-	-	-	-	46,241
Total liabilities	100,645,382	46,039,898	15,750,559	31,786,559	6,913,938	108,187	46,241
Gap representing equity	**13,567,214**	**(22,765,844)**	**(8,985,937)**	**(10,723,736)**	**26,771,062**	**24,176,327**	**5,095,342**

The table below shows the maturity of the Group's contingent liabilities and credit commitments:

31 December 2021	Total AED'000	Less than 1 month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000	Over 5 years AED'000
Contingent liabilities	14,060,279	1,479,634	1,802,902	2,060,885	1,036,737	7,680,121
Credit commitments	17,714,851	3,033,700	2,198,757	2,903,896	3,242,875	6,335,623
Total	**31,775,130**	**4,513,334**	**4,001,659**	**4,964,781**	**4,279,612**	**14,015,744**

Impaired loans by sector and by geographic location

The Group monitors concentrations of its impaired loans by sector and by geographic location. An analysis of concentrations of impaired (excluding restructured / under restructuring) loans by sector is shown below:

31 December 2021	Impaired loans AED'000	Collateral AED'000	Specific provision AED'000
Manufacturing	82,056	45,670	23,088
Construction	745,325	404,691	315,411
Real estate	2,117,046	1,952,791	383,755
Trade	275,295	63,160	202,661
Transportation and storage	23,119	17,769	7,323
Services	795,078	281,843	335,783
Hospitality	308,620	304,783	41,577
Financial and insurance activities	1,222,983	319,939	1,122,392
Personal - mortgage	140,253	104,282	53,314
Personal - schematic	115,213	54,389	49,453
Individual loans for business	277,100	43,928	226,279
Others	15	11	4,494
Total carrying amount	**6,102,103**	**3,593,256**	**2,765,530**

All impaired loans are located in one geographic area i.e. the United Arab Emirates. The value of collateral is restricted to lower of loan exposure or realisable value of the collateral.

The gross carrying value of unfunded exposures pertaining to impaired loans amounted to AED 281 million.

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

Credit Risk Mitigation

The Group uses a number of techniques to mitigate the credit risks to which we are exposed. Mitigation of credit risk is a key aspect of effective risk management and takes many forms such as collateral, netting, credit insurance and guarantees. The Group carefully assessed these credit risk mitigation techniques to ensure legal certainty and enforceability, market valuation, correlation and credit risk of the guarantor. The primary approach is still reliant on the debtors' ability and capacity to pay rather than on credit risk mitigation tools.

Collateral

The Group holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored and updated on a periodic basis. Generally, collateral is not held against debt securities and amounts due from banks. Analysis of collateral by type is presented in the following table:

	2021
	AED'000
Pledged deposits	3,320,629
Properties	38,647,650
Mortgages	241,353
Pledge of shares	2,789,227
Bank guarantees	267,668
Gold	193,587
Credit Insurance	94,849
Others	28,773
Total collaterals	**45,583,736**

Please refer page 82 - 86 in the audited financial statements 2021 for credit risk management and reporting of risk exposures and risk mitigation related to credit risk.

9.6 Credit risk mitigation techniques –Overview (CR3)

The following table represents the extent of use of credit risk mitigation techniques.

31 December 2021 (AED 000s)	**Exposures unsecured: carrying amount**	**Exposures secured by collateral**	**Exposures secured by collateral of which: secured amount**	**Exposures secured by financial guarantees**	**Exposures secured by financial guarantees, of which: secured amount**	**Exposures secured by credit derivatives**	**Exposures secured by credit derivatives, of which: secured amount**
Loans	52,753,853	23,197,251	4,290,755	1,748,569	319,818	-	-
Debt securities	8,655,825	-	-	-	-	-	-
Total	**61,409,691**	**23,197,251**	**4,290,755**	**1,748,569**	**319,818**	**-**	**-**
Of which defaulted	1,298,374	2,047,030	152,798	-	-	-	-

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

The Group follows the standardized approach which requires banks to use risk assessments prepared by external credit assessment institutions ('ECAIs') to determine the risk weightings applied to rated counterparties. CBUAE has advised following ECAIs to be used for the rating purpose:

- Moody's Investor Service ('Moody's') ; and
- Fitch ratings ('Fitch')

Based on the rating processes of these ECAIs, the CBUAE has established the following tables:

Moody's	**Fitch**
Aaa to Aa-	AAA to AA-
A1 to A3	A+ to A-
Baa1 to Baa3	BBB+ to BBB-
Ba1 to Ba3	BB+ to BB-
B1 to B3	B+ to B-
Below B-	Below B-
Unrated	Unrated

If there is only one rating, that rating should be used to determine the risk weight of the exposure. If there are two rating that map to different risk weights, the higher risk weight must be applied.

If there are three or more ratings with different risk weights, the corresponding to the two lowest risk weights should be referred to. If these give rise to the same risk weight, that risk weight should be applied. If different, the higher risk weight should be applied.

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

The following table illustrates the effect of CRM on standardized approach capital requirements' calculations. RWA density provides a synthetic metric on riskiness of each portfolio.

31 December 2021 (AED 000s)	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Sovereigns and their central banks	20,679,748	350,287	20,679,748	75,456	923,260	4%
Public Sector Entities	8,570,161	3,235,515	8,407,505	1,325,167	8,601,618	88%
Multilateral development banks	-	-	-	-	-	0%
Banks	5,756,185	1,947,563	5,742,250	962,592	3,189,963	48%
Securities firms	-	-	-	-	-	0%
Corporates	42,558,711	31,441,171	39,009,123	7,729,812	43,579,062	93%
Regulatory retail portfolios	4,484,272	2,725,737	4,077,005	67,110	3,584,235	86%
Secured by residential property	7,246,457	13,186	7,244,383	-	2,743,918	38%
Secured by commercial real estate	10,178,364	681,494	9,800,477	22,245	9,822,722	100%
Equity Investment in Funds (EIF)	279,429	-	279,429	-	406,903	146%
Past-due loans	7,205,598	295,307	4,223,245	268,506	5,460,354	122%
Higher-risk categories	42,770	-	42,770	-	64,155	150%
Other assets	3,065,945	90,221	3,065,945	89,932	2,342,030	74%
Total	**110,067,640**	**40,780,481**	**102,571,880**	**10,540,820**	**80,718,220**	**71%**

9.9 Standardized approach - Exposures by asset classes and risk weights (CR5)

The following table presents the breakdown of credit risk exposures under the standardized approach by asset class and risk weight.

31 December 2021 (AED 000s)	RWA Weights									
Asset Classes	**0%**	**20%**	**35%**	**50%**	**75%**	**85%**	**100%**	**150%**	**250%**	**Total**
Sovereigns and their central banks	19,361,919	587,532	-	-	-	-	805,753	-	-	**20,755,204**
Public Sector Entities	-	428,750	-	1,576,108	-	-	7,727,814	-	-	**9,732,672**
Multilateral development banks	-	-	-	-	-	-	-	-	-	**0**
Banks	-	3,257,249	-	1,818,539	-	-	1,628,674	380	-	**6,704,842**
Securities firms	-	-	-	-	-	-	-	-	-	**0**
Corporates	-	1,606,436	-	978,020	-	9,238,094	34,916,385	-	-	**46,738,935**
Regulatory retail portfolios	-	-	-	-	2,239,519	-	1,904,596	-	-	**4,144,115**
Secured by residential property	-	-	6,911,207	-	32,723	-	300,453	-	-	**7,244,383**
Secured by commercial real estate	-	-	-	-	-	-	9,822,722	-	-	**9,822,722**
Equity Investment in Funds (EIF)	-	-	-	-	-	-	24,480	254,949	-	**279,429**
Past-due loans	-	-	-	-	-	-	2,554,546	1,937,205	-	**4,491,751**
Higher-risk categories	-	-	-	-	-	-	-	42,770	-	**42,770**
Other assets	956,425	-	-	-	-	-	2,104,401	-	95,051	**3,155,877**
Total	**20,318,344**	**5,879,967**	**6,911,207**	**4,372,667**	**2,272,242**	**9,238,094**	**61,789,824**	**2,235,304**	**95,051**	**113,112,700**

10 Counterparty credit risk (CCR)

10.1 Qualitative disclosure related to Counterparty credit risk (CCRA)

Counterparty credit risk (CCR) is the risk that a counterparty in a derivative contracts defaults prior to the settlement of the derivative transactions. CCR arises mainly in trading book but also arises in the non-trading book (hedging an exposure with external counterparty).

Limits for CCR exposures are assigned within the overall credit process and set for individual counterparties. The magnitude of this limit will depend on the overall risk appetite and type of derivatives traded with the counterparty. Individual limits assigned to each counterparty are based on Potential Future Exposure (PFE) methodology.

The PFE measures used for CCR are adjusted to the 95th percentile. It takes into account volatility of various assets classes (Forex, Interest rate and commodities), contract maturity and the counterparty legal documentation covering netting and collateral.

Counterparty credit risk Mitigants

Credit risk from derivatives is mitigated where possible through contractual netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset. The Group's policy requires all netting arrangements to be legally documented.

The Group also negotiates Credit Support Annexes (CSA) with counterparties where collateral is used as a mitigant to the exposure, by requiring a counterparty to which a derivative transaction has a negative market value to post collateral such as cash or government bonds. In the event that any required payments under the derivative contract are not made (e.g. due to insolvency), the Group will be able to offset its losses by realizing the value of the assets posted as collateral. All collateral held by the Group as variation margin under CSAs is under the form of cash.

Wrong Way Risk

Wrong way risk (WWR) arises when there is a strong correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. WWR occurs when exposure to a counterparty is negatively correlated with the credit quality of the counterparty.

The Group uses a range of tools to monitor and control wrong-way risk by setting up limit on country, tenor, collateral type and counterparty.

Exposure value calculation

From a capital perspective, in line with Central Bank of the UAE, the Group uses the Standardized approach for measurement of CCR exposure associated with over the Counter (OTC) derivatives transactions. This methodology replaces the Current Exposure Method (CEM) as it accurately recognizes the effects of collateralization and recognizes the benefit from over-collateralization.

Credit rating downgrade

A credit rating downgrade threshold clause in a CSA is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral or the termination of transactions by the non-affected party.

10.2 Analysis of Counterparty Credit Risk by approach (CCR1)

The following table provides a comprehensive view of the method used to calculate counterparty credit risk regulatory requirements and the main parameters used within each method.

31 December 2021 (AED 000s)	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	721,353	467,318		1.4	1,664,139	1,215,179
Simple Approach for credit risk mitigation (for SFTs)					-	-
Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
Total					**1,664,139**	**1,215,179**

10.3 Standardized approach - CCR exposures by regulatory portfolio and risk weights (CCR3)

The following table provides a breakdown of counterparty credit risk exposures calculated according to the standardized approach by regulatory portfolio and by risk weight.

31 December 2021 (AED 000s)	Credit Exposure							
Regulatory Portfolio	**0%**	**20%**	**50%**	**75%**	**85%**	**100%**	**150%**	**Total**
Sovereigns	-	-	-	-	-	-	-	**-**
Public Sector Entities (SPEs)	-	-	311,424	-	-	119,259	-	**430,684**
Multilateral development banks (MDBS)	-	-	-	-	-	-	-	**-**
Banks	-	157,988	303,452	-	-	-	-	**461,440**
Securities firms	-	-	-	-	-	-	-	**-**
Corporates	-	-	-	-	112,162	618,220	-	**730,382**
Regulatory retail portfolios	-	-	-	27	-	-	-	**27**
Secured by residential property	-	-	-	-	-	-	-	**-**
Secured by commercial real estate	-	-	-	-	-	22,245	-	**22,245**
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	**-**
Past-due loans	-	-	-	-	-	-	14,040	**14,040**
Higher-risk categories	-	-	-	-	-	-	-	**-**
Other assets	5,321	-	-	-	-	-	-	**5,321**
Total	**5,321**	**157,988**	**614,876**	**27**	**112,162**	**759,724**	**14,040**	**1,664,139**

10.4 Composition of collateral for Counterparty Credit Risk exposure (CCR5)

The following table provide a breakdown of all types of collateral posted or received by the Bank to support or reduce the counterparty credit risk exposures related to derivative transactions.

31 December 2021 (AED 000s)	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	532,858	-	-
Cash - other currencies	-	34,738	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**34,738**	**-**	**532,858**	**-**	**-**

11 Market Risk

11.1 General qualitative disclosure requirements related to market risk (MRA)

Market risk is the risk that changes in market factors, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect CBD's income and / or value of investment portfolio. The objective of market risk management is to manage and control market risk exposure within approved risk appetite, while optimizing the return on risk.

Market Risk Exposure

Market risk exposure in CBD is separated into two portfolio types:

- Trading portfolios: The positions under this portfolio include positions that are held to support clients' needs and proprietary positions with the intention of short-term resale.
- Non-trading portfolios: Comprise positions which are not held with trading intent and include financial investment (mostly debt instruments) measured at fair value through other comprehensive income.

CBD has a hedging framework which incorporates risk management objectives, strategy for undertaking the hedge and the nature of risk being hedged. The hedge effectiveness testing is performed on a regular basis for on and off- balance sheet items and market risk is responsible for monitoring the continuing effectiveness of hedges.

Market Risk Control and Governance Structure

The Bank's exposure to market risk is governed by a policy approved by the ALCO and ratified by the Risk Committee. The policy sets out the nature of risk which may be taken, and applicable maximum risk limits. Compliance with the Bank's risk limits and the Bank's exposure to market risks are reviewed at monthly meetings of ALCO and quarterly meetings of the Board Risk and Compliance Committee.

Market Risk Unit which is an independent function, produces daily reports for the business and senior management detailing CBD's Market risk profile against limits, as well as monthly summary reports to ALCO and Board Risk and Compliance Committee. Breaches of limit is reported daily to Senior Management and escalated to ALCO at the monthly ALCO meeting.

Market risk measures

The primary risk factors driving market risk are summarized below:

Foreign exchange: Risk arising from changes in foreign exchange rates and volatilities.

Interest rate: Risk arising from changes in the level of interest rates that may impact prices of interest rate sensitive assets such as interest rate swaps.

Commodity: Risk arising from changes in commodity prices.

Credit: Risk arising from changes in the level of credit spreads that may impact prices of credit spread sensitive assets.

CBD uses a range of risk measurement metrics and limits to monitor and manage the risks that the business is exposed to such as:

- Value-at-Risk (VaR);
- Sensitivity stress tests;
- Sensitivity measures, including Credit Spread (CS01) and Interest Sensitivities (DV01)
- Stop Loss and
- Other nominal measures (i.e. the FX overnight positions).

The Group's approach to market risk can be found on page 97 of the annual audited Financial Statements 2021.

11.2 Market risk under the standardized approach (MR1)

The following table provides the components of capital requirement under the standardized approach for market risk.

31 December 2021 **(AED 000s)**	**RWA**
General Interest rate risk (General and Specific)	700,874
Equity risk (General and Specific)	3,921
Foreign exchange risk	26,935
Commodity risk	-
Options	
Simplified approach	-
Delta-plus method	-
Securitization	-
Total	**731,730**

12 Interest rate risk in the banking book (IRRBB)

12.1 IRRBB risk management objectives and policies (IRRBBA)

Interest rate risk in the banking book (IRRBB) is the risk of loss resulting from changes in interest rates. Interest rate risk arises largely from mismatched maturity and re-pricing dates between the Group's assets, liabilities and off-balance sheet transactions.

The Board delegates the management of IRRBB to the Asset & Liability Committee (ALCO), which in turn monitors IRRBB on a monthly basis and reviews key developments affecting the management of structural IRR.

Measurement of IRRBB

The Group uses two key metrics for measuring IRRBB: Net Interest Income ('NII') Sensitivity, an income measure which quantifies the potential change in projected net interest income over a one-year horizon from defined movements in interest rates; and Economic Value of Equity ('EVE') Sensitivity with the assumption of a run-off balance sheet, which estimates the potential change in the present value of the Group's Banking Book assets and liabilities from defined movements in interest rates. Used together, these measures provide a complementary and rounded view of the Group's risk profile.

Factors such as changes in volumes, margins are not captured by this measure and it assumes that businesses make no additional changes in pricing or balances in response to unanticipated rate changes.

NII and EVE sensitivities are calculated under various interest rate scenarios, including parallel shifts and using behavioral assumptions for non-maturing products.

For products with no contractual maturity (i.e. Non-maturity deposits), the bank carried out behavioral analysis based on historical data to establish set levels of core and non-core deposits.

12.2 Sensitivity of economic value of equity and NII (IRRBB1)

The following table indicates the economic value of equity and net interest income under the prescribed interest rate shock scenarios.

In reporting currency (AED 000s)	∆EVE	∆NII
Period	**31 December 2021**	**31 December 2021**
Parallel up	(302,868)	508,029
Parallel down	237,171	(288,679)
Steepener	549,034	
Flattener	(458,991)	
Short rate up	(658,635)	
Short rate down	111,185	
Maximum	**(658,635)**	
Tier 1 capital	**12,781,931**	

- Average repricing maturity assigned to NMDs is 1.036 years
- Longest repricing maturity assigned to NMDs is 3 Years

13 Operational Risk

Operational risk is defined by Basel as "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this includes legal risk but excludes strategic and reputation risks".

The Group's objective is to manage operational risk, so as to balance the avoidance of financial losses and damage to the Group's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative, innovativeness and creativity.

The primary responsibility for overseeing the establishment of sound operational risk management framework and monitoring the operational risk profile of the Group vests with the senior management of the Group. The Group has set up a cross functional committee named Operational Risk Management Committee (ORMC) of senior management personnel to formalize this responsibility and closely monitor key Operational Risks on a pan bank basis to support timely execution of action plans.

Accountability and responsibility is further assigned to the heads of individual units, departments or branches. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions to eliminate scenarios involving any conflict of interest;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures pertaining to all activities of the bank;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action to avoid its future recurrence;
- Development of contingency plans to ensure continuity of business under all circumstances;
- Training and professional development of employees at all levels so as to increase their awareness of the subject;
- Ethical and business standards (through the Group's approved and functional Code of Conduct);
- Risk mitigation, including insurance wherever this is effective; and
- Whistle Blowing and Incident Reporting Policies are channels available to all staff for reporting of any loss events or other wrongdoings.

The Group has an approved framework for end-to-end management of its operational risks, which involves the active participation of the employees at all levels. The Operational Risk Management plan places an equal emphasis on the identification, assessment, control and reporting of operational risks and on quantification of potential risks and resultant losses therein, if any. Reports are produced covering Operational Risk dashboards, heat-maps, loss matrices, Operational Risk register and loss databases.

Group Risk Management are responsible for embedding bank-wide Operational Risk awareness, by delivering workshops, seminars and training courses on different operational risk disciplines, for the employees, throughout the year. As part of the Operational Risk framework in the Bank, Risk and Control Self Assessments (RCSA) are being carried out by all Business Units to identify and measure their operational risks and assess the effectiveness of existing controls. Action plans are agreed for any control weaknesses or unacceptable risks to mitigate the likelihood and / or impact of an Operational Risk event. Any Operational Risk events that occur are recorded and escalated to ensure timely remedial actions are taken, to reduce customer dissatisfaction and recover losses.

Moreover, the Group conducts an assessment of disaster recovery and business continuity position, as well as detailed system risk assessments of all new / upgraded IT systems and assessment of Operational Risk elements in any new products to be launched or procedures to be implemented. Compliance with policies and procedures is supported by periodic reviews undertaken by Internal Audit. A review of the insurance coverage available to the Group is undertaken to maintain oversight of adequacy of insurance as necessitated by the Basel guidelines. Regular updates are provided to the senior management and the Board Risk and Compliance Committee to support their mandate to maintain adequate oversight of the Group's operational risk framework and status of operational risks across all areas of the Group.

The total capital requirement for Operational Risk as at 31 December 2021 is AED 603 million.

14 Liquidity Risk

14.1 Liquidity risk management (LIQA)

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at contracted maturities and rates and the inability to liquidate assets at reasonable prices and in the required timeframe and the inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

Management of liquidity risk

Liquidity risk is managed by the Treasury and Asset and Liability management (ALM) department in line with the regulatory, internal policies and guidelines. The Group's approach to manage liquidity risk is to ensure that it has adequate funding from diversified sources at all times to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, money market instruments, subordinated debts and capital. The treasury and ALM department monitors the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions.

The Group's liquidity management process, as carried out within the Group and monitored by Group's treasury, includes:

- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met - these include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money market to facilitate funding activities;
- Maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Repurchase arrangements with various Banks which allow it to repo its fixed income investments to meet any liquidity needs that may arise.

Exposure to liquidity risk

The keys measure used by the Group for measuring liquidity risk are Eligible liquid asset ratio and the Advances to stable resources ratio (regulatory ratio's) which stood at 18.71% and 88.00% respectively as at 31 December 2021. In addition, the Group also uses the following ratios / information on a continuous basis for measuring liquidity risk:

- Net loans to deposits ratio (LDR); and
- Concentration ratios (20 largest deposits, Government deposits, and wholesale CASA to total deposits.)
- Basel III ratios (including LCR, NSFR, etc.) are also monitored internally and shared with the Board on quarterly basis.

Please refer page 93 of the annual audited financial statements 2021 for detailed liquidity risk management and reporting.

14.2 Eligible Liquid Assets Ratio (ELAR)

The following table presents the breakdown of the Bank's available high-quality liquid assets (HQLA), as measured and defined according to the CBUAE Liquidity Regulations.

1	High Quality Liquid Assets	Nominal amount (AED 000s)	Eligible Liquid Asset (AED 000s)
1.1	Physical cash in hand at the bank + balances with the CBUAE	17,490,430	
1.2	UAE Federal Government Bonds and Sukuks	109,930	
	Sub Total (1.1 to 1.2)	17,600,360	17,600,360
1.3	UAE local governments publicly traded debt securities	639,933	
1.4	UAE Public sector publicly traded debt securities	457,776	
	Subtotal (1.3 to 1.4)	1,097,709	1,097,709
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	149,076	149,076
1.6	**Total**	18,847,145	18,847,145
2	Total liabilities		100,745,398
3	**Eligible Liquid Assets Ratio (ELAR)**		18.71%

14.3 Advances to Stables Resource Ratio (ASRR)

The following table presents the breakdown of the Bank's advances to Stables Resource ratio as per the Liquidity regulations.

		Items	Amount
1		**Computation of Advances**	**(AED 000s)**
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	74,562,303
	1.2	Lending to non-banking financial institutions	3,137,369
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	1,571,189
	1.4	Interbank Placements	661,599
	1.5	**Total Advances**	79,932,460
2		**Calculation of Net Stable Resources**	
	2.1	Total capital + general provisions	14,804,635
		Deduct:	
	2.1.1	Goodwill and other intangible assets	85,068
	2.1.2	Fixed Assets	1,745,072
	2.1.3	Funds allocated to branches abroad	-
	2.1.5	Unquoted Investments	281,389
	2.1.6	Investment in subsidiaries, associates and affiliates	95,051
	2.1.7	**Total deduction**	2,206,580
	2.2	**Net Free Capital Funds**	12,598,055
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	-
	2.3.2	Interbank deposits with remaining life of more than 6 months	5,614,078
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	2,854,598
	2.3.5	Customer Deposits	69,490,852
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	275,475
	2.3.7	**Total other stable resources**	78,235,003
	2.4	**Total Stable Resources (2.2+2.3.7)**	90,833,058
3		**Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)**	88.00%

15 Remuneration Policy

15.1 Remuneration policy (REMA)

This includes the Bank's remuneration policy as well as key features of the remuneration system to allow meaningful assessments by users of Pillar III data of banks' compensation practices.

Remuneration Committee Overview

The **Nomination and Remuneration Committee (RemCo)** is the custodian of the culture of the Bank and ensures that CBD's values of Collaboration, Ownership, Delivery and Excellence (CODE) are embedded into our ways of working. The Committee focuses on the development of a high performance culture, thereby ensuring that our performance planning and reward mechanisms remain fit for purpose and aligned to our business goals. In addition, REMCO monitors the efficacy of our organizational structures, the engagement of our employees and the development of our UAE National workforce. The committee consists of four directors of the Board.

The detailed mandate of the committee is explained as follows:

- Selection and Assessment (fit-for-purpose) of candidates to the Board Membership.
- Make recommendations to the Board, for approval by shareholders, regarding the Directors' Remuneration Policy and any other remuneration matters that may require shareholder approval.
- Setting the principles, parameters and governance framework of CBD's remuneration policy as applicable to all employees.
- Setting the remuneration policy and remuneration for Senior Management and other Senior Executives of CBD and its subsidiaries.
- Setting the remuneration policy and remuneration for Regulated Employees of CBD and its subsidiaries in accordance with prevailing regulatory requirements.
- Reviewing any matters relating to remuneration that need to be reported to the Board, shareholders and CBD's primary regulator, and assessing that there are effective safeguards in place to ensure that remuneration policies are clearly aligned with CBD's risk appetite and regulatory and other legislative requirements that CBD is required to comply with.
- Considering material issues communicated to it by the Board Audit Committee arising from the work of Internal Audit relating to matters which fall within these terms of reference, including communication of relevant internal audit findings on remuneration matters.
- Seeking advice (if required) from the Board Risk and Compliance Committee on the alignment of risk and remuneration and on risk adjustments to be applied in setting the annual variable pay pool.
- Manage the CEO selection process.
- Approving the selection of and overseeing the performance of senior management.
- Review and approve Promotions and Increment cycles (Process and Total amount for the Bank and details for Senior Management).
- Review and approve the annual Bonus Pool in the context of the Bank's risk appetite and risk tolerance, as well as the process of allocating the pool to the different units in the Bank.
- Review and approve the annual bonus for the CEO and Senior Management and regulated individuals making sure that it adheres to regulatory requirements and internal policies.
- Review and approve the CEO and Senior Management Succession Plan.
- Review and approve the following Human Resource Policies: Code of Conduct, Emiratization, Reward and Promotions, as well as Executive Selection and Executive Remuneration.
- Review and approve the structure of variable remuneration including annual and long- term incentive arrangements and risk adjustment mechanisms

Scope of the remuneration policy

CBD's reward policy explains the Bank's approach to create a high performance workplace through the effective use of rewards. The Bank believes in laying down clear principles that can be used to take reward-related decisions. In essence, CBD will:

- Not lose top talent for compensation
- Pay competitively to valued performers
- Proactively exit poor performers and those not suited to the Bank's culture

CBD's Reward policy applies to all employees of the Bank, whether the employee is on the payroll of the Bank or employed through another company, including any current or future subsidiaries of the Bank. The Policy also applies by extension, and insofar as their contracts so provide, to third parties who have entered into contracts to provide services to the Bank.

Senior Management and Material risk-takers (MRT)

The Senior Management are identified as the executive management of the Group responsible and accountable to the Board for the sound and prudent day-to-day management of the Group.

The Group is currently reviewing the MRT identification criteria outlined in the CBUAE Corporate Governance Regulations and Corporate Governance Standards published in September 2019.

Key features of remuneration policy

CBD aims to attract, retain and reward talented individuals by offering compensation that is competitive within the industry, motivates them to achieve the Bank's business objectives and encourages high levels of performance at the same time as aligning the interests of the Board of Directors and shareholders.

CBD's Reward policy is driven by the following four principles:

Results-driven: CBD will reward results, measured through "performance" for current results and through "potential" for future results. While effort is important, results will be the primary driver of reward.

Differentiated: There will be a strong differentiation among employees exhibiting different levels of performance. The "top talent" will be paid a substantially higher compensation compared to the rest. Differentiation will be used to manage overall costs.

Criticality: Specialized skill sets will command a premium over generic skills. It is noted that skills that are specialized at one point in time could become generic later on, and vice versa.

Change-oriented: The reward approach will be driven by a transformation and change mindset. Roles and individuals driving transformation will be rewarded higher compared to those who follow the 'status quo'.

Compensation is based on the position (the worth or value of the job in the market based on job evaluation), performance of the employee and the personal capabilities an individual brings to the organization. Compensation is also based on market levels and performance. Each level is pegged against a similar level in the market. Specialized or critical roles are further benchmarked against similar roles to better assess the market benchmark. Compensation of employees in control functions such as Compliance and Internal Audit is determined independently of the Bank's performance. Fixed compensation pay of employees in control functions such as Compliance and Internal Audit is higher than the variable pay.

Compensation consists of:

Fixed Pay. Fixed Pay is competitive against the local market when benchmarked against the Bank's key local and international competitors and appropriately differentiated based on performance. It is influenced by each individual's contribution over the year and any Fixed Pay review depends on a change in responsibilities as well as the achievement of objectives and overall performance level. Fixed Pay is made up of Basic Salary and Allowances.

Variable Pay. Variable Pay covers Short Term Incentives (annual bonus/incentives) and Long Term Incentives, as appropriate, in the context of the market and talent. The variable part of the remuneration is determined with due consideration of factors including the achievement of results as well as other developments relevant to the Bank, including non-financial indicators that are relevant to the long-term objectives of the Bank. Variable Compensation (Discretionary Annual Performance Bonus) shall strongly differentiate between different levels of performance and drive the creation of a high performance organization. Payment of bonuses is strictly at the discretion of the Bank, and actual bonuses awarded in any given year will be dependent on the performance of the Bank as a whole, the business line under consideration, and the individual.

The Remuneration Committee is responsible for approving HR Policies, in particular those impacting compensation and benefits for all employees and Executives.

The Reward policy was last updated in February 2021 and was submitted to RemCo for approval before publication on the Bank's intranet. The following were the changes made to the policy:

Inclusion of a paragraph indicating that the Discretionary Performance Bonus allocation guidelines are defined on an annual basis prior to the bonus recommendation process. This was already happening in effect, but was included in the policy to provide greater transparency with regards to the process.

In addition, and in alignment with the principle of good governance, a paragraph was added to indicate that the process followed for Discretionary Performance Bonus payout is documented on an annual basis to formalize approval from the CEO post the payout. Approvals for individual awards are usually obtained from the Group Heads prior to finalizing the payout.

The above changes, as mentioned, were made to increase transparency and internal governance and had no impact on remuneration.

CBD's Reward policy indicates in its policy provisions that *"Compensation of employees in control functions such as Compliance and Internal Audit shall be determined independently of the Bank's performance"*.

- From a fixed pay perspective, the Board Audit Committee and the Board Risk and Compliance Committee recommend changes to the Chief Internal Auditor's and the Chief Risk Officer's remuneration, respectively, to the Remuneration and Nomination Committee for approval
- From a variable pay perspective, the Board Audit Committee carries out the Chief Internal Auditor's appraisal score while the Board Risk and Compliance Committee does the same for the Chief Risk Officer. Bonuses are recommended by each Board to RemCo for approval

Commercial Bank of Dubai (CBD) uses a Balanced Scorecard with financial and non-financial Key Performance Indicators (KPIs) to drive and measure performance against set objectives.

The Group's Balance Scorecard contains four quadrants with a set of measurable KPIs against each one of them: Financial, People, Customer and Change Management.

While for the majority of the Bank the Financial KPIs are linked to driving and creating value for the Bank through the achievement of measures like Operating Income, Net Profit, Return on Equity or Productivity, none of these measures are applicable to employees in Risk, Compliance or Internal Audit.

Instead, these control functions have specific KPIs completely independent of the areas that they oversee like cost of risk, recoveries, enhance efficiencies or reduce the cost of non-compliance.

Individuals in control functions are not eligible to participate in CBD's Long Term Incentive Plan as the measures associated to the achievement of the plan are all financial.

At the moment, there is no framework linking Risk and Reward other than the Balanced Scorecard and the KPIs. Developing a more explicit framework will be part of the work that CBD will develop during the first half of 2022 to fully implement, and be compliant with, the requirements included in the Corporate Governance Regulations for Banks.

Overview of main performance metrics

Commercial Bank of Dubai (CBD) uses a Balanced Scorecard with financial and non-financial Key Performance Indicators (KPIs) to drive and measure performance against its set objectives for the financial year (January to December).

A sound framework of measurement is essential to drive high performance at CBD. Consequently, KPIs are aligned to CBD's business strategy on the four quadrants mentioned, cascaded and measured across the organization. In addition, our KPIs are SMART.

Once the business objectives are clear, the Group level scorecard, which is the CEO scorecard, is defined. Specific objectives, targets and measures are determined for each of the quadrants, as well as key actions and strategic initiatives agreed at the strategy offsite. At the same time, a Strategy Map of KPIs linked to the achievement of Group's strategy is created to help build the scorecards of the CEO's direct reports. RemCo approves both the Bank level (CEO) scorecard and the CEO's direct reports strategy map.

After the CEO's direct reports (L2) have finalized their balanced scorecards, these get approved by the CEO and are cascaded to their direct reports (L3), so that they can build their own. Once completed, L3 scorecards are reviewed and approved by the Business Unit Heads (CEO's direct reports) to make sure consistency and alignment to CBD's and business unit strategy.

Human Resources (HR) coordinates centrally, together with Finance, the completion of the CEO, L2 and L3 scorecards in order to drive the alignment and cascading of objectives.

The rest of employee's balanced scorecards are managed and agreed by line managers following a similar process, but determining KPIs that are less strategic in nature but still linked to the achievement of CBD's annual objectives.

The KPIs are formally evaluated twice a year during the mid-year and annual appraisal cycles. Informally, they are reviewed more frequently (particularly in areas participating in sales incentives).

The KPI review forms part of the "what" has been achieved during the annual cycle. In addition, individuals also get assessed on the "how" those KPIs have been achieved. Employee's behavior is expected to be aligned against our CODE Values and is also assessed during the mid-year and annual review cycles.

Our CODE values are:

- Collaboration – "One Bank Together Now"
- Ownership – What we say, we do
- Delivery – We drive flawless execution through effective planning
- Excellence – We win together through service excellence

Both, Performance and Values ratings are evaluated against a five-point rating scale that supports strong differentiation between levels of performance.

Performance Rating	Values Rating
5 - Significantly Exceeds Expectations	A - Significantly Exceeds Expectations
4 - Exceeds Expectations	B - Exceeds Expectations
3 - Meets Expectations	C - Meets Expectations
2 - Partially Meets Expectations	D - Partially Meets Expectations
1 - Does Not Meet Expectations	E - Does Not Meet Expectations

The mid-year review provides an opportunity for all to review progress against agreed objectives, the demonstration of Values until this date and the clarification of expectations from employees until the end of the year. The mid-year review results in a mid-year performance rating and is an opportunity to provide feedback to achieve higher performance standards. The mid-year rating is calibrated to provide a fair assessment to an individual against agreed objectives and relative to other employees.

The performance rating distribution for the year-end review is based on the overall Bank as well as individual and Business/Function's performance. Guidelines for rating distribution are approved by the Human Resources Committee (HRC) and communicated by the Human Resources (HR) department.

The Final Review at year-end is based on the evaluation of the performance and the demonstration of CODE Values during the entire year. HR collates the ratings from line managers and conducts a calibration exercise across the organization in cooperation with the respective Group Heads and the HRC.

Employees rated overall as *"Partially Meets Expectations"* or *"Does Not Meet Expectations"* on Performance are not eligible for a Discretionary Performance Bonus, salary increase, promotion or any other benefit linked to ratings.

Payment of bonuses is strictly at the discretion of the Bank, and actual bonuses awarded in any year will be dependent upon the performance of the business, function and individual. In designated roles and based on the nature of responsibilities, the Discretionary Annual Performance Bonus will be replaced by a monthly or quarterly incentive payout based on pre-determined targets. In such cases, the Discretionary Annual Performance Bonus is not applicable. Such Incentive Plans are owned and managed by the respective Businesses, the governance of the same is owned jointly by the Business, Finance and HR.

Each year, depending on the performance of CBD, RemCo approves the Discretionary Annual Performance Bonus pool. As per the Corporate Governance Regulations for Banks, the annual bonus pool for the Bank does not exceed 5% of the annual net profit. If higher, AGM approval is required.

Final bonus awards are determined based on the Bank's, the function's and individual performance. RemCo approves the annual bonus award for the CEO and the CEO direct reports. Senior manager bonus awards are fully discretionary but differentiated based on performance. Bonus awards for the rest of the organization are initially determined based on the annual allocation grid, which is determined based on the bonus pool available. The grid is designed to differentiate awards based on performance rating.

Initial bonus awards for all levels can be adjusted:

- Downwards, in case of non-adherence to completion of the Bank's Mandatory Programs or Mandatory Learning or as the outcome of a disciplinary case
- Upwards, for outstanding display of CBD's CODE values ("*Exceeds Expectation"* or *"Significantly Exceeds Expectations"*)

Not all employees will be subject to an adjustment, but if they are, the final bonus amount will be the result of applying the required adjustments as detailed above.

In compliance with the Corporate Governance Regulations for Banks, CBD will look to implement a more explicit Risk and Remuneration framework in 2022 to make sure our remuneration practices promote sound and effective risk management while supporting our business objectives.

Deferred remuneration

At present, there are no deferrals in place for bonuses or Long Term Incentives at CBD.

There is currently no framework linking Risk and Reward other than the Balanced Scorecard and the KPIs. A more explicit framework will be part of the work that CBD will developed during the first half of 2022 to fully implement, and be compliant with, the requirements included in the Corporate Governance Regulations for Banks, including adjustments for deferred variable pay.

Variable remuneration

Variable Compensation at CBD is designed to reward the achievement of short and long term objectives as well as other initiatives relevant to the Bank, including non-financial indicators.

Variable pay at CBD is made up of Short Term Incentives (annual discretionary performance bonus / performance linked incentives) and Long Term Incentives. All variable pay plans are delivered 100% in cash. Eligibility with regards to variable pay varies depending on the purpose of the incentive plan.

The **Discretionary Annual Performance Bonus plan** focuses on the achievement of short-term (annual) objectives which are above and beyond the normal call of duty. It is designed to strongly differentiate between levels of performance and drive the creation of a high performance organization. The majority of employee's participate in this plan.

Performance-linked Incentives: Replaces the Discretionary Annual Performance Bonus in designated roles (based on the nature of the job – mostly in retail banking and collections). The frequency of the incentive is monthly or quarterly based on the achievement of pre-determined targets. Incentive Plans are owned and managed by the respective Businesses and governed jointly by the Business, Finance and Human Resources.

Long Term Incentive Plan: The purpose is to drive the Bank's three-year strategy from 2021 to 2023 by aligning the total compensation of senior leadership with the key targets of the three-year Strategic Plan as well as with long-term shareholder interests. Only a small number of strategic and revenue generating senior leadership individuals participate in this plan. Heads of Risk, Compliance and Audit are excluded as per Corporate Governance Regulations for Banks.

CBD has not commissioned external consultants during 2021 in any areas of the remuneration process.

15.2 Remuneration awarded during the financial year (REM1)

The following table provides quantitative information on fixed and variable remuneration for the financial year.

Remuneration Amount (AED '000s)		**Senior Management / Other Material Risk-takers**
Fixed Remuneration	Number of employees	13
	Total fixed remuneration	**25,961**
	Of which: cash-based	25,961
Variable Remuneration	Number of employees	13
	Total variable remuneration	**37,516**
	Of which: cash-based	37,516
Total Remuneration		**63,477**

15.3 Special payments (REM2)

The following table provides the quantitative information on Special payments for the financial year.

	Guaranteed Bonuses		**Sign on Awards**		**Severance Payments**	
(AED '000s)	**Number of employees**	**Total amount**	**Number of employees**	**Total amount**	**Number of employees**	**Total amount**
Senior Management / Other material risk - takers	-	-	-	-	1	1,551

15.4 Deferred remuneration (REM3)

There are no deferrals in place at CBD as of 31 December 2021.

16 Acronyms

ALCO	Assets & Liabilities Committee
ALM	Asset and Liability management
AT1	Additional Tier 1
CBUAE	Central Bank United Arab Emirates
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital buffer
CET1	Common Equity Tier 1
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CVA	Credit Value Adjustment
DVA	Debit Value Adjustment
EAD	Exposure at default
ECAI	External Credit Assessment Institutions
EL	Expected Loss
HQLA	High Quality Liquid Assets
IFRS	International Financial Reporting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IRR	Interest Rate Risk
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MRT	Material Risk Takers
NIM	Net Interest Margin
NSFR	Net Stable Funding Ratio
ORM	Operational Risk Management
OTC	Over the Counter Derivatives
PD	Probability of Default
PFE	Potential Future Exposure
PRA	Prudential Regulation Authority
PSE	Public Sector entity
RWA	Risk Weighted Asset
SA	Standardized Approach
T1	Tier 1 Capital
T2	Tier 2 Capital
TC	Total Capital
TESS	Target Economic Support Scheme
VaR	Value at Risk