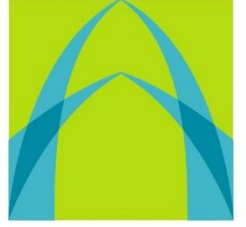


بنك دبي التجاري
Commercial Bank of Dubai



Basel III – Pillar III Disclosures

For The Year Ended 31 December 2023

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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 Stock Company (PJSC) in accordance with Federal Law No. 32 of 2021. 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 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 the Group’s 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, CBUAE/BSD/N/2021/5508 and CBUAE/BSD/2022/5280) published in November 2020, November 2021 and December 2022 respectively.

The Pillar III report of the Group for the year ended 31 December 2023 comprises detailed information on the underlying drivers of risk-weighted assets (RWA), capital of the Bank, its wholly owned subsidiaries 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 2023. The direct subsidiaries and associate of the Group are as follows:

Name of Subsidiary	Ownership Interest	County of Incorporation	Principle activities
<i>Subsidiary</i>			
CBD Financial Services LLC	100%	UAE	Providing brokerage facilities for local shares and bonds.
CBD Employment Services One Person Company LLC	100%	UAE	Supply of manpower services.
Attijari Properties LLC	100%	UAE	Self-owned property management services as well as buying and selling of real estate.
Noor Almethaq Real Estate Development LLC	100%	UAE	Development of real estate.
<i>Special Purpose Entity</i>			
CBD (Cayman) Limited	100%	Cayman Islands	Issuance of debt securities.
CBD (Cayman II) Limited	100%	Cayman Islands	Transact and negotiate derivative agreements.
VS 1897 (Cayman) Limited	100%	Cayman Islands	Manage investment acquired in the settlement of debt.

Name of Subsidiary	Ownership Interest	County of Incorporation	Principle activities
CBD Digital Lab Limited [Subsidiary of VS 1897 (Cayman) Limited]	100%	UAE	Technology research and development.
Hortin Holding Limited [Subsidiary of VS 1897 (Cayman) Limited]	100%	British Virgin Islands	Manage real estate related investment acquired in the settlement of debt.
Lodge Hill Limited [Subsidiary of VS 1897 (Cayman) Limited]	100%	British Virgin Islands	Manage real estate related investment acquired in the settlement of debt.
Westdene Investment Limited [Subsidiary of VS 1897 (Cayman) Limited]	100%	British Virgin Islands	Manage real estate related investment acquired in the settlement of debt.
Associate			
National General Insurance Co. (PJSC)	17.8%	UAE	Life and general insurance business as well as certain reinsurance business.

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%.

In November 2020, CBUAE issued revised standards and guidelines for Capital Adequacy in UAE. The new version to the Standards includes additional Guidance on the topics of Credit Risk, Market Risk and Operational Risk. Following are the changes in the revised standards which have been adopted:

- 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 (CVA) for Pillar I and III

CBUAE requires the Pillar 2 - Supervisory Review Process to focus on each bank’s Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based forward looking view of, but not limited to, Credit, Market and Operational Risk Capital.

The purpose of Pillar III – Market Discipline is to complement the minimum Capital requirements (Pillar I) and the supervisory review process (Pillar II). 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 include 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 Pillar III market disclosure for year ended 31 December 2023.

This Pillar III disclosure have been subject to review from internal auditors, statutory 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, Credit Valuation Adjustment (CVA) 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.

The Group also assigns capital on other than Pillar I risk categories, for example 'Interest rate risk on banking book' and for 'Concentration 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 2023:

- The Group's Common Equity Tier 1 (CET1) ratio of 12.54% (31 December 2022: 12.40%), Tier 1 capital Ratio of 14.81% (31 December 2022: 14.90%), Capital Adequacy Ratio of 15.95%¹ (31 December 2022: 16.04%), are all above the regulatory requirements.
- The Group's leverage ratio of 9.97% (31 December 2022: 10.17%) is above 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 the 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:

		Dec'23	Sep'23	Jun'23	Mar'23	Dec'22
	Available capital (amounts)	(AED '000s)				
1	Common Equity Tier 1 (CET1)	12,203,222	12,705,960	12,066,821	11,478,911	10,916,957
1a	Fully loaded ECL accounting model	12,094,797	12,599,023	11,984,233	11,421,845	10,826,666
2	Tier 1	14,407,022	14,909,760	14,270,621	13,682,711	13,120,757
2a	Fully loaded ECL accounting model Tier 1	14,298,597	14,802,823	14,188,033	13,625,645	13,030,466
3	Total capital	15,517,077	16,007,085	15,346,074	14,716,322	14,128,146
3a	Fully loaded ECL accounting model total capital	15,408,652	15,900,148	15,263,486	14,659,256	14,037,855
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	97,300,973	95,280,172	93,429,931	90,119,130	88,073,313
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	12.54%	13.34%	12.92%	12.74%	12.40%
5a	Fully loaded ECL accounting model CET1 (%)	12.43%	13.22%	12.83%	12.67%	12.29%
6	Tier 1 ratio (%)	14.81%	15.65%	15.27%	15.18%	14.90%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	14.70%	15.54%	15.19%	15.12%	14.80%
7	Total capital ratio (%)	15.95%	16.80%	16.43%	16.33%	16.04%
7a	Fully loaded ECL accounting model total capital ratio (%)	15.84%	16.69%	16.34%	16.27%	15.94%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.45%	6.30%	5.92%	5.74%	5.40%
	Leverage Ratio					
13	Total leverage ratio measure	144,437,305	140,264,456	137,014,819	132,591,794	128,960,570
14	Leverage ratio (%) (row 2/row 13)	9.97%	10.63%	10.42%	10.32%	10.17%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.90%	10.55%	10.36%	10.28%	10.10%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.97%	10.63%	10.42%	10.32%	10.17%
	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	22,975,374	21,448,358	19,815,907	20,973,020	18,895,824
22	Total liabilities	113,094,418	111,073,278	108,814,581	105,784,429	102,117,522
23	Eligible Liquid Assets Ratio (ELAR) (%)	20.31%	19.31%	18.21%	19.83%	18.50%
	ASRR					
24	Total available stable funding	101,299,524	100,473,742	98,972,555	94,846,361	90,040,336
25	Total Advances	88,384,200	87,640,901	85,298,646	80,413,439	78,413,470
26	Advances to Stable Resources Ratio (%)	87.25%	87.23%	86.18%	84.78%	87.09%

"Fully Loaded" means 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, oversight of management and satisfying itself there are adequate controls with the ultimate objective of promoting the success and long-term value of the Group. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group’s risk appetite 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 the Board Executive Committee (BEC), Board Risk and Compliance Committee (BRCC), Board Audit Committee (BAC) and the Remuneration, Nomination and Governance Committee (REMCO).

Management actively manages risk, through a three lines of defense model where the businesses and functions in the first line are the risk owners, and the second line function of the Risk Department defines risk policies and provides assurance that risk is appropriately managed, oversight by the Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Credit Committee (CC), Project Investment Committee (PIC), Risk Management and Compliance Committee (RMCC), Operational Risk Management Committee (ORMC), Environmental, Social, and Governance Council (ESG Council), Model Oversight Committee (MOC), IFRS 9 Provisions Committee (IFRS 9 PC) and the Sharia Supervision Committee (ISSC).

6.2 Control Environment

a) Group Risk

The Group Risk Management Department comprises of the following areas: Enterprise Risk Management, Market Risk, Operational Risk including Technology Risk and Business Continuity Management, Risk Governance and Fraud Risk Management. The core responsibilities include the following:

- The upkeep of the Risk Management Framework and risk appetite in accordance with the strategic plan approved by the Board and regulatory requirements;
- Performing the Group’s Internal Capital Adequacy Assessment Process (ICAAP) - including the Material Risk Identification Process - Capital Management analysis, the development of Pillar II capital assessment models and conducting Stress Testing;
- Providing the independent assessment of, and challenge to the business areas’ risk management and profiles to ensure that they are maintained in a robust manner;
- 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 RMCC and the ALCO, and highlighting emerging risks.
- Conducting assurance reviews on the 1st line of defense activities including risk and control self-assessments, control testing and the appropriate adoption of risk policies.
- Providing operational resilience - protecting Group and customer information assets from cybersecurity risks and ensuring that critical functions can be maintained should a disruptive event occurs;
- Centrally managing the Group’s policies to ensure timely review and approval in accordance with regulatory and internal deadlines;
- Formulating and managing the Group’s Model Risk management approach, ensuring appropriate governance controls are in place and in line with internal and regulatory expectations;
- Framing and introducing necessary controls to identify, assess and monitor the Group’s exposure to Market Risk.

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 assurance on the compliance with key 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;
- 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. Management has reviewed the system of internal controls and found them to be effective.

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

Compliance risk is defined by the Basel Committee as "the risk of legal or regulatory sanctions, financial loss, or loss to reputation that a Group may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct

and standards of good practice".

The process of monitoring compliance is an independent task which aims at ensuring that the Group, which includes the Bank and its regulated subsidiaries, operates in compliance with applicable laws, regulations, instructions, directives and circulars, issued by relevant authorities as well as prevailing market practices and ethical standards.

The Board of Directors oversees management of Compliance risk within the Group and takes necessary measures to set and promote a culture of compliance with the letter and spirit of applicable laws, rules, standards, ethical and professional conduct values when conducting the business of the Group.

The mission and role of the Group Compliance department is to:

- Ensure Compliance risk is adequately identified, assessed, monitored and mitigated in conjunction with Business and other control functions;
- Ensure senior management and the Board are fully informed of significant compliance issues and plans for resolution;
- Contribute to a “no surprise” compliance culture by educating and communicating compliance awareness throughout the Group;
- Conduct independent reviews of selected processes and controls across the Group to ensure that key regulatory obligations are met and that key controls operate effectively;
- Develop annual compliance plans which set out compliance priorities for the Group and align compliance plans with business strategies and goals; and
- Support the business in meeting applicable regulatory requirements, including Anti-Money Laundering (AML), Combatting the Financing of Terrorism (CFT), Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) requirements.

e) Whistle Blowing

A set of arrangements has been designed to enable employees and customers to confidentially report concerns about any potential violations or misconduct, enabling the investigation and follow up of such concerns in an independent and confidential manner. Such arrangements are supervised by the Board in coordination with the senior management.

f) 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 the susceptibility of the Group’s assets and processes to fraud risk with a view to reducing it and to raise the level of fraud awareness amongst employees, customers and other stakeholders.

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 2023 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 77 of the Audited Financial Statements 2023)
- Liquidity Risk (refer to page 89 of the Audited Financial Statements 2023)
- Market Risk (refer to page 94 of the Audited Financial Statements 2023)
- Operational Risk (refer to page 99 of the Audited Financial Statements 2023)

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
		Dec'23	Sep'23	Dec'23
1	Credit risk (excluding counterparty credit risk)	87,871,210	86,934,402	9,226,477
2	Of which: standardised approach (SA)	87,871,210	86,934,402	9,226,477
3				
4				
5				
6	Counterparty credit risk (CCR)	474,420	461,444	49,814
7	Of which: standardised approach for counterparty credit risk	474,420	461,444	49,814
8				
9				
10	Credit valuation adjustment (CVA)	281,971	216,151	29,607
11				
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	176,771	174,039	18,561
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17				
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	1,038,385	1,260,751	109,030
21	Of which: standardised approach (SA)	1,038,385	1,260,751	109,030
22				
23	Operational risk	7,458,217	6,233,385	783,113
24				
25				
26	Total (1+6+10+11+12+13+14+15+16+20+23)	97,300,973	95,280,172	10,216,602

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 (LI1)

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 2023 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 market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and balances with Central Bank	15,009,602	15,009,602	15,009,602	-	-	-
Due from banks, net	3,772,709	3,772,709	3,772,709	-	-	-
Loans and advances and Islamic financing, net	83,313,306	83,313,306	83,313,306	-	-	-
Investment securities, net	15,098,729	15,098,729	14,937,012	-	161,717	-
Investment in an associate	102,390	102,390	102,390	-	-	-
Investment properties, net	246,050	246,050	246,050	-	-	-
Property and equipment	431,843	431,843	271,940	-	-	159,903
Bankers acceptances	7,931,518	7,931,518	7,931,518	-	-	-
Positive mark to market value of derivatives	697,872	697,872	-	697,872	697,872	-
Other assets, net	2,383,472	2,383,472	2,383,472	-	-	-
Total Assets	128,987,491	128,987,491	127,967,999	697,872	859,589	159,903
Liabilities						
Due to banks	7,833,389	7,833,389	-	-	-	7,833,389
Customer deposits and Islamic customer deposits	88,287,145	88,287,145	-	-	-	88,287,145
Notes and medium term borrowings	5,705,456	5,705,456	-	-	-	5,705,456
Due for trade acceptances	7,931,518	7,931,518	-	-	-	7,931,518
Negative mark to market value of derivatives	634,707	634,707	-	634,707	634,707	-
Other liabilities	2,813,919	2,813,919	10,241	-	-	2,803,678
Total Liabilities	113,206,134	113,206,134	10,241	634,707	634,707	112,561,186

31 December 2022 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 market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and balances with Central Bank	15,760,429	15,760,429	15,760,429	-	-	-
Due from banks, net	3,766,507	3,766,507	3,766,507	-	-	-
Loans and advances and Islamic financing, net	74,720,117	74,720,117	74,706,779	-	-	13,338
Investment securities, net	8,810,092	8,810,092	8,562,923	-	247,169	-
Investment in an associate	92,916	92,916	92,916	-	-	-
Investment properties, net	185,768	185,768	185,768	-	-	-
Property and equipment	354,251	354,251	244,024	-	-	110,227
Bankers acceptances	8,570,044	8,570,044	8,570,044	-	-	-
Positive mark to market value of derivatives	1,024,009	1,024,009	-	1,024,009	1,024,009	-
Other assets, net	2,902,494	2,902,494	2,902,494	-	-	-
Total Assets	116,186,627	116,186,627	114,791,884	1,024,009	1,271,178	123,565
Liabilities						
Due to banks	7,838,704	7,838,704	-	-	-	7,838,704
Customer deposits and Islamic customer deposits	81,074,379	81,074,379	-	-	-	81,074,379
Notes and medium term borrowings	2,034,019	2,034,019	-	-	-	2,034,019
Due for trade acceptances	8,570,044	8,570,044	-	-	-	8,570,044
Negative mark to market value of derivatives	923,911	923,911	-	923,911	923,911	-
Other liabilities	1,863,324	1,863,324	93,672	-	-	1,769,652
Total Liabilities	102,304,381	102,304,381	93,672	923,911	923,911	101,286,798

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (L12)

31 December 2023 AED (000s)		Total	Items subject to:		
			Credit risk framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template L11)	128,827,588	127,967,999	697,872	859,589
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template L11)	644,948	10,241	634,707	634,707
3	Total net amount under regulatory scope of consolidation	128,182,639	127,957,758	63,165	224,882
4	Off-balance sheet amounts	46,871,050	46,871,050	-	-
5	Differences in valuations	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-
7	Differences due to consideration of provisions and interest in suspense	5,731,710	5,731,710	-	-
8	Differences due to prudential filters	-	-	-	-
9	Derivatives	592,886	-	592,886	-
10	Exposure amounts considered for regulatory purposes	181,378,286	180,560,518	656,051	224,882

31 December 2022 (AED 000s)		Total	Items subject to:		
			Credit risk framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template L11)	116,063,062	114,791,884	1,024,009	1,271,178
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template L11)	1,017,583	93,672	923,911	923,911
3	Total net amount under regulatory scope of consolidation	115,045,479	114,698,212	100,098	347,267
4	Off-balance sheet amounts	39,918,485	39,918,485	-	-
5	Differences in valuations	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-
7	Differences due to consideration of provisions and interest in suspense	5,187,339	5,187,339	-	-
8	Differences due to prudential filters	-	-	-	-
9	Derivatives	900,447	-	900,447	-
10	Exposure amounts considered for regulatory purposes	161,015,750	159,804,036	1,000,545	347,267

6.7 Explanations of differences between accounting and regulatory exposure amounts (L1A)

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, 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 Central Bank of the UAE.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The level of capital on shareholders' return is also recognised and the Group recognises 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, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance 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 2023 audited Financial Statements sets out the Group's capital resources and adequacy (pages 103-106).

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

7.2 Composition of Regulatory Capital (CC1)

		31 Dec 2023	31 Dec 2022
		(AED 000s)	(AED 000s)
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	5,844,451	5,570,844
2	Retained earnings	7,069,028	6,148,380
3	Accumulated other comprehensive income (and other reserves)	(550,354)	(692,040)
4	<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>	-	-
5	Common share capital issued by third parties (amount allowed in group CET1)	-	-
6	Common Equity Tier 1 capital before regulatory deductions	12,363,125	11,027,184
Common Equity Tier 1 capital regulatory adjustments			
7	Prudent valuation adjustments	-	-
8	Goodwill (net of related tax liability)	159,903	110,227
9	Other intangibles including mortgage servicing rights (net of related tax liability)	-	-
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-	-
11	Cash flow hedge reserve	-	-
12	Securitisation 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	159,903	110,227
25	Common Equity Tier 1 capital (CET1)	12,203,222	10,916,957
Additional Tier 1 capital: instruments			
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	2,203,800	2,203,800
27	Of which: classified as equity under applicable accounting standards	2,203,800	2,203,800
28	Of which: classified as liabilities under applicable accounting standards	-	-
29	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>	-	-
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	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-	-
32	Additional Tier 1 capital before regulatory adjustments	2,203,800	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	2,203,800
39	Tier 1 capital (T1= CET1 + AT1)	14,407,022	13,120,757

		31 Dec 2023	31 Dec 2022
		(AED 000s)	(AED 000s)
Tier 2 capital: instruments and provisions			
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
41	<i>Directly issued capital instruments subject to phase-out from Tier 2</i>	-	-
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	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-	-
44	Provisions	1,110,055	1,007,389
45	Tier 2 capital before regulatory adjustments	1,110,055	1,007,389
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)	1,110,055	1,007,389
52	Total regulatory capital (TC = T1 + T2)	15,517,077	14,128,146
53	Total risk-weighted assets	97,300,973	88,073,313
Capital ratios and buffers			
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	12.54%	12.40%
55	Tier 1 (as a percentage of risk-weighted assets)	14.81%	14.90%
56	Total capital (as a percentage of risk-weighted assets)	15.95%	16.04%
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%	2.50%
58	Of which: capital conservation buffer requirement	2.50%	2.50%
59	Of which: bank-specific countercyclical buffer requirement	0.00%	0.00%
60	Of which: higher loss absorbency requirement (e.g. DSIB)	0.00%	0.00%
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	5.54%	5.40%
The CBUAE Minimum Capital Requirement			
62	Common Equity Tier 1 minimum ratio	7.00%	7.00%
63	Tier 1 minimum ratio	8.50%	8.50%
64	Total capital minimum ratio	10.50%	10.50%
Amounts below the thresholds for deduction (before risk weighting)			
65			
66	Significant investments in common stock of financial entities	-	-
67			
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 standardised approach (prior to application of cap)	-	-
70	Cap on inclusion of provisions in Tier 2 under standardised approach	-	-
71			
72			
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
73	<i>Current cap on CET1 instruments subject to phase-out arrangements</i>	-	-
74	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	-	-
75	<i>Current cap on AT1 instruments subject to phase-out arrangements</i>	-	-
76	<i>Amount excluded from AT1 due to cap (excess after redemptions and maturities)</i>	-	-
77	<i>Current cap on T2 instruments subject to phase-out arrangements</i>	-	-
78	<i>Amount excluded from T2 due to cap (excess after redemptions and maturities)</i>	-	-

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).

AED'000s	31 December 2023		31 December 2022	
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets				
Cash and balances with Central Bank	15,009,602	15,009,602	15,760,429	15,760,429
Due from banks, net	3,772,709	3,772,709	3,766,507	3,766,507
Loans and advances and Islamic financing, net	83,313,306	83,313,306	74,720,117	74,720,117
Investment securities, net	15,098,729	15,098,729	8,810,092	8,810,092
Investment in an associate	102,390	102,390	92,916	92,916
Investment properties, net	246,050	246,050	185,768	185,768
Property and equipment	431,843	431,843	354,251	354,251
Bankers acceptances	7,931,518	7,931,518	8,570,044	8,570,044
Positive mark to market value of derivatives	697,872	697,872	1,024,009	1,024,009
Other assets, net	2,383,472	2,383,472	2,902,494	2,902,494
Total assets	128,987,491	128,987,491	116,186,627	116,186,627
Liabilities				
Due to banks	7,833,389	7,833,389	7,838,704	7,838,704
Customer deposits and Islamic customer deposits	88,287,145	88,287,145	81,074,379	81,074,379
Notes and medium term borrowings	5,705,456	5,705,456	2,034,019	2,034,019
Due for trade acceptances	7,931,518	7,931,518	8,570,044	8,570,044
Negative mark to market value of derivatives	634,707	634,707	923,911	923,911
Other liabilities	2,813,919	2,813,919	1,863,324	1,863,324
Total liabilities	113,206,134	113,206,134	102,304,381	102,304,381
Shareholders' equity				
Share capital	2,985,192	2,985,192	2,802,734	2,802,734
Tier 1 capital notes	2,203,800	2,203,800	2,203,800	2,203,800
Legal and statutory reserve	1,492,596	1,492,596	1,401,447	1,401,447
General reserve	1,328,025	1,328,025	1,328,025	1,328,025
Capital reserve	38,638	38,638	38,638	38,638
Fair value reserve	(552,325)	(550,354)	(693,832)	(692,040)
Retained earnings	8,285,431	6,960,603	6,801,434	6,071,426
IFRS transitional arrangement	-	108,425	-	90,292
Regulatory deductions and adjustments	-	(159,903)	-	(123,565)
Eligible general provision	-	1,110,055	-	1,007,389
Total shareholders' equity	15,781,357	15,517,077	13,882,246	14,128,146

7.4 Main features of regulatory capital instruments (CCA)

		Quantitative / qualitative information
1	Issuer	Commercial Bank of Dubai P.S.C.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	XS2243350753
3	Governing law(s) of the instrument	English Law
Regulatory treatment		
4	Transitional arrangement rules (i.e., grandfathering)	NA
5	Post-transitional arrangement rules (i.e., grandfathering)	NA
6	Eligible at solo/group/group and solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Additional Tier 1 Capital Securities
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	AED 2,203.8 million as of 31 December 2023
9	Nominal amount of instrument	U.S.\$600,000,000
9a	Issue price	100 percent
9b	Redemption price	100% in case of an Optional Redemption or a Tax Event Redemption, and 101% in case of a Capital Event Redemption.
10	Accounting classification	Equity attributable to equity holders
11	Original date of issuance	21 October 2020
12	Perpetual or dated	Perpetual
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	21 April 2026 / Tax Event or a Capital Event / at Par for Optional and Tax Event call, at 101% in case of a Capital Event.
16	Subsequent call dates, if applicable	21 October 2026 and any Interest Payment Date thereafter
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.000 percent
19	Existence of a dividend stopper	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	Write-down feature	Yes
25	If write-down, write-down trigger(s)	Notice from the UAE Central Bank (as the Regulator) to the Issuer that the Issuer has, or will, become Nonviable (as defined in the Conditions) without a write-down or a public injection of capital or equivalent support (i.e., Point of Non-Viability (PONV) trigger)
26	If write-down, full or partial	Full/Partial (Both Options available)
27	If write-down, permanent or temporary	Permanent
28	If temporary write-own, description of writeup mechanism	NA
28a	Type of subordination	Contractual
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Conditional and subordinated obligations – to the extent that the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of the Issuer has been issued by a court in the UAE, all claims of the Noteholders under the Notes will be extinguished, and the Notes will be cancelled without any further payment to be made by the Issuer under the Notes.
30	Non-compliant transitioned features	No
31	If yes, specify non-compliant features	NA

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 Dec 2023 (AED 000s)	30 Sep 2023 (AED 000s)	31 Dec 2022 (AED 000s)
1	Total consolidated assets as per published financial statements	128,987,491	126,237,114	116,186,627
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	656,051	698,208	1,000,545
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	-	-	-
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	14,953,667	13,478,519	11,896,963
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-
12	Other adjustments	(159,903)	(149,385)	(123,565)
13	Leverage ratio exposure measure	144,437,305	140,264,456	128,960,570

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 Dec 2023 AED 000s	30 Sep 2023 AED 000s	31 Dec 2022 AED 000s
On-balance sheet exposures				
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	128,987,491	126,237,114	116,186,627
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)	(159,903)	(149,385)	(123,565)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	128,827,588	126,087,729	116,063,062
Derivative exposures				
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	309,530	326,136	447,448
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	346,521	372,072	553,097
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)	656,051	698,208	1,000,545
Securities financing transactions				
14	Gross SFT <i>assets</i> (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	46,871,050	43,957,190	39,918,485
20	(Adjustments for conversion to credit equivalent amounts)	(31,917,383)	(30,478,671)	(28,021,522)
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)	14,953,667	13,478,519	11,896,963
Capital and total exposures				
23	Tier 1 capital	14,407,022	14,909,760	13,120,757
24	Total exposures (sum of rows 7, 13, 18 and 22)	144,437,305	140,264,456	128,960,570
Leverage ratio				
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	9.97%	10.63%	10.17%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.97%	10.63%	10.17%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%	3.00%
27	Applicable leverage buffers	6.97%	7.63%	7.17%

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 authorisation 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 gradings;
- 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 utilisation 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 behaviour, 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 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 Group expects to receive. The Group 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 2023 (AED 000s)		Gross carrying values of		Allowances / Impairments	ECL accounting provisions for credit losses		Net values
		Defaulted exposures	Non-defaulted exposures		Specific	General	
1	Loans	6,715,706	82,158,358	5,560,758	4,390,392	1,170,366	83,313,306
2	Debt securities	-	14,765,277	128	-	128	14,765,149
3	Off-balance sheet exposures	455,117	25,447,741	204,861	31,610	173,251	25,697,998
4	Total	7,170,823	122,371,376	5,765,747	4,422,002	1,343,745	123,776,453

31 December 2022 (AED 000s)		Gross carrying values of		Allowances / Impairments	ECL accounting provisions for credit losses		Net values
		Defaulted exposures	Non-defaulted exposures		Specific	General	
1	Loans	6,078,877	73,540,861	4,899,621	3,744,345	1,155,276	74,720,117
2	Debt securities	-	8,368,170	17	-	17	8,368,153
3	Off-balance sheet exposures	345,464	19,805,054	112,296	20,418	91,878	20,038,222
4	Total	6,424,341	101,714,085	5,011,934	3,764,763	1,247,171	103,126,492

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 2023 (AED 000s)	31 December 2022 (AED 000s)
1	Defaulted loans and debt securities at the end of the previous reporting period	6,078,877	6,102,103
2	Loans and debt securities that have defaulted since the last reporting period	1,728,091	1,806,459
3	Returned to non-default status	(319,890)	(1,018,517)
4	Amounts written off	(896,513)	(245,527)
5	Other changes	125,141	(565,641)
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	6,715,706	6,078,877

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 unlikelihood 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 realising 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 to 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 2023, AED 699 million (2022: AED 874 million) past due exposure above 90 days were not impaired.

As at 31 December 2023, restructured loans constituted AED 1,134 million (2022: AED 773 million). Out of which impaired exposure amounting to AED 815 million (2022: AED 355 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 2023:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Manufacturing	6,767,339	-	341,357	-	-	7,108,696	1,874,970	1,496,542
Construction	5,860,537	-	-	-	-	5,860,537	966,543	10,477,062
Real estate	18,394,058	-	-	-	-	18,394,058	4,245,922	1,400,828
Trade	9,573,867	-	-	-	-	9,573,867	5,032,808	10,869,045
Transportation and storage	2,771,389	-	123,574	-	-	2,894,963	1,511,650	101,731
Services	6,290,765	-	368,251	52,991	-	6,712,007	1,417,580	892,834
Hospitality	2,782,500	-	-	-	-	2,782,500	179,665	18,001
Financial and insurance activities	8,688,549	3,774,453	3,227,769	280,589	102,390	16,073,750	4,336,059	1,349,397
Government entities	2,651,504	-	9,089,976	-	14,167,637	25,909,117	1,001,866	42,557
Personal - mortgage	12,356,828	-	-	-	-	12,356,828	8,864	-
Personal - schematic	4,950,521	-	-	-	-	4,950,521	4,077,042	10,691
Individual loans for business	1,495,293	-	-	-	-	1,495,293	572,469	647
Others	6,290,914	-	1,614,350	-	5,090,804	12,996,068	1,811,706	1,106,089
Total carrying amount	88,874,064	3,774,453	14,765,277	333,580	19,360,831	127,108,205	27,037,144	27,765,424

Concentration of credit risk by sector for 2022:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Manufacturing	5,555,810	-	255,625	-	-	5,811,435	2,013,617	1,479,519
Construction	5,267,474	-	-	-	-	5,267,474	686,635	7,643,635
Real estate	19,133,781	-	-	-	-	19,133,781	5,183,808	1,296,605
Trade	9,230,932	-	-	-	-	9,230,932	4,674,607	10,966,060
Transportation and storage	2,390,725	-	134,426	-	-	2,525,151	423,995	77,751
Services	5,987,754	-	334,727	60,072	-	6,382,553	1,427,151	840,490
Hospitality	3,182,690	-	-	-	-	3,182,690	315,806	14,504
Financial and insurance activities	5,948,857	3,767,680	2,284,008	381,867	92,916	12,475,328	4,130,769	1,717,568
Government entities	1,656,336	-	4,039,390	-	14,929,737	20,625,463	217,522	171,140
Personal - mortgage	10,284,271	-	-	-	-	10,284,271	32,850	-
Personal - schematic	4,512,723	-	-	-	-	4,512,723	3,400,171	1,677
Individual loans for business	1,484,289	-	-	-	-	1,484,289	372,997	682
Others	4,984,096	-	1,319,994	-	5,625,537	11,929,627	384,049	1,014,921
Total carrying amount	79,619,738	3,767,680	8,368,170	441,939	20,648,190	112,845,717	23,263,977	25,224,552

Concentration of credit risk by geographic location for 2023:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
UAE	80,110,995	31,962	9,287,005	168,788	19,360,831	108,959,581	21,850,660	21,794,553
GCC	3,576,298	1,307,428	1,448,487	-	-	6,332,213	2,502,331	672,289
Middle East	925,796	550,367	-	66,665	-	1,542,828	162,600	100,061
Europe	2,043,617	531,132	761,211	1,702	-	3,337,662	1,429,582	2,883,392
USA	24,341	1,029,417	1,296,813	3,075	-	2,353,646	275	21,817
Asia	791,403	160,073	1,570,139	-	-	2,521,615	270,390	2,151,516
Others	1,401,614	164,074	401,622	93,350	-	2,060,660	821,306	141,796
Total carrying amount	88,874,064	3,774,453	14,765,277	333,580	19,360,831	127,108,205	27,037,144	27,765,424

Concentration of credit risk by geographic location for 2022:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
UAE	75,988,624	77,545	4,454,572	179,662	20,648,190	101,348,593	20,339,004	20,427,867
GCC	625,889	219,440	1,050,307	-	-	1,895,636	1,419,744	475,548
Middle East	489,517	350,148	-	47,846	-	887,511	689	182,425
Europe	967,695	1,408,405	335,837	1,651	-	2,713,588	1,119,611	499,748
USA	6,035	1,530,369	1,039,483	16,944	-	2,592,831	45	1,380,392
Asia	689,626	86,191	1,184,611	-	-	1,960,428	307,210	2,154,039
Others	852,352	95,582	303,360	195,836	-	1,447,130	77,674	104,533
Total carrying amount	79,619,738	3,767,680	8,368,170	441,939	20,648,190	112,845,717	23,263,977	25,224,552

Concentration of credit risk by currency for 2023:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
AED	64,974,039	7	6,171,814	52,991	18,322,441	89,521,292	21,060,347	15,186,477
Other currencies*	23,900,025	3,774,446	8,593,463	280,589	1,038,390	37,586,913	5,976,797	12,578,947
Total carrying amount	88,874,064	3,774,453	14,765,277	333,580	19,360,831	127,108,205	27,037,144	27,765,424

Concentration of credit risk by currency for 2022:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
AED	62,845,809	7	1,541,743	60,072	19,569,402	84,017,033	18,397,554	12,228,639
Other currencies*	16,773,929	3,767,673	6,826,427	381,867	1,078,788	28,828,684	4,866,423	12,995,913
Total carrying amount	79,619,738	3,767,680	8,368,170	441,939	20,648,190	112,845,717	23,263,977	25,224,552

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

COMMERCIAL BANK OF DUBAI

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Group Credit exposure by Maturity for 2023

	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
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with Central Bank	15,009,602	8,141,965	200,000	1,300,000	-	-	5,367,637
Due from banks, net	3,772,709	1,705,569	-	422,395	1,644,745	-	-
Loans and advances and Islamic financing, net	83,313,306	8,495,817	7,820,806	11,512,497	29,134,773	26,349,413	-
Investment securities, net	15,098,729	1,131,840	1,281,112	5,542,294	5,227,473	1,916,010	-
Investment in associate	102,390	-	-	-	-	-	102,390
Investment properties, net	246,050	-	-	-	-	-	246,050
Property and equipment	431,843	-	-	-	-	-	431,843
Bankers acceptances	7,931,518	1,961,053	88,611	5,850,331	31,523	-	-
Positive mark to market value of derivatives	697,872	697,872	-	-	-	-	-
Other assets, net	2,383,472	1,028,772	-	-	-	-	1,354,700
Total assets	128,987,491	23,162,888	9,390,529	24,627,517	36,038,514	28,265,423	7,502,620
Liabilities and equity							
Due to banks	7,833,389	2,556,667	183,650	2,045,867	3,047,205	-	-
Customer deposits and Islamic customer deposits	88,287,145	52,923,801	11,957,338	22,947,418	446,716	11,872	-
Notes and medium term borrowings	5,705,456	-	-	623,793	5,081,663	-	-
Due for trade acceptances	7,931,518	1,961,053	88,611	5,850,331	31,523	-	-
Negative mark to market value of derivatives	634,707	634,707	-	-	-	-	-
Other liabilities	2,813,919	2,765,397	-	-	-	-	48,522
Total liabilities	113,206,134	60,841,625	12,229,599	31,467,409	8,607,107	11,872	48,522
Gap representing equity	15,781,357	(37,678,737)	(2,839,070)	(6,839,892)	27,431,407	28,253,551	7,454,098

COMMERCIAL BANK OF DUBAI

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Group Credit exposure by Maturity for 2022

	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
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with Central Bank	15,760,429	12,530,692	-	-	-	-	3,229,737
Due from banks, net	3,766,507	3,281,371	-	182,531	302,605	-	-
Loans and advances and Islamic financing, net	74,720,117	9,197,572	6,886,764	8,534,060	29,091,078	21,010,643	-
Investment securities, net	8,810,092	56,260	666,260	1,370,382	4,044,117	2,673,073	-
Investment in associate	92,916	-	-	-	-	-	92,916
Investment properties, net	185,768	-	-	-	-	-	185,768
Property and equipment	354,251	-	-	-	-	-	354,251
Bankers acceptances	8,570,044	1,254,037	1,674,927	5,634,675	6,405	-	-
Positive mark to market value of derivatives	1,024,009	1,024,009	-	-	-	-	-
Other assets, net	2,902,494	747,182	-	-	-	-	2,155,312
Total assets	116,186,627	28,091,123	9,227,951	15,721,648	33,444,205	23,683,716	6,017,984
Liabilities and equity							
Due to banks	7,838,704	1,835,072	577,883	989,099	4,436,650	-	-
Customer deposits and Islamic customer deposits	81,074,379	50,431,143	11,122,064	18,601,077	909,119	10,976	-
Notes and medium term borrowings	2,034,019	-	-	-	2,034,019	-	-
Due for trade acceptances	8,570,044	1,254,037	1,674,927	5,634,675	6,405	-	-
Negative mark to market value of derivatives	923,911	923,911	-	-	-	-	-
Other liabilities	1,863,324	1,809,439	-	-	-	-	53,885
Total liabilities	102,304,381	56,253,602	13,374,874	25,224,851	7,386,193	10,976	53,885
Gap representing equity	13,882,246	(28,162,479)	(4,146,923)	(9,503,203)	26,058,012	23,672,740	5,964,099

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

31 December 2023	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Contingent liabilities	19,833,906	956,151	1,872,942	3,067,041	2,330,483	11,607,289
Credit commitments	27,037,144	5,139,610	1,820,345	5,018,472	6,964,757	8,093,960
Total	46,871,050	6,095,761	3,693,287	8,085,513	9,295,240	19,701,249

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31 December 2022	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	16,654,508	2,005,206	1,839,560	2,365,779	1,328,365	9,115,598
Credit commitments	23,263,977	4,884,592	2,511,043	3,793,699	3,163,637	8,911,006
Total	39,918,485	6,889,798	4,350,603	6,159,478	4,492,002	18,026,604

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 2023	Impaired loans	Collateral	Specific provision
	AED'000	AED'000	AED'000
Manufacturing	47,838	16,283	34,361
Construction	1,797,660	519,861	1,509,860
Real estate	2,124,965	1,652,172	955,643
Trade	335,136	37,520	297,667
Transportation and storage	117,844	81,304	36,557
Services	922,856	461,769	518,590
Hospitality	284,661	212,772	97,978
Financial and insurance activities	701,856	29,496	688,238
Personal - mortgage	49,140	42,338	11,387
Personal - schematic	133,332	112,373	28,385
Individual loans for business	107,320	23,170	99,504
Others	93,098	1,221	112,222
Total carrying amount	6,715,706	3,190,279	4,390,392

31 December 2022	Impaired loans	Collateral	Specific provision
	AED'000	AED'000	AED'000
Manufacturing	69,639	37,012	46,142
Construction	1,443,931	528,585	992,152
Real estate	1,511,585	1,084,330	632,165
Trade	351,931	33,966	319,439
Transportation and storage	5,901	1,117	5,986
Services	918,110	424,093	412,503
Hospitality	278,555	236,561	80,129
Financial and insurance activities	1,064,870	270,254	901,097
Personal - mortgage	71,717	61,052	17,713
Personal - schematic	50,223	18,919	22,879
Individual loans for business	297,335	42,238	298,980
Others	15,080	235	15,160
Total carrying amount	6,078,877	2,738,362	3,744,345

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 456.4 million (2022: AED 346.8 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, and no such collateral was held at 31 December 2023 or 2022.

Analysis of collateral by type is presented in the following table:

	2023	2022
	AED'000	AED'000
Pledged deposits	2,357,544	2,024,670
Properties	35,526,549	38,009,754
Mortgages	1,226,135	1,207,668
Pledge of shares	1,580,478	2,491,527
Bank guarantees	174,966	212,796
Gold	118,288	185,880
Credit Insurance	160,212	127,415
Total collaterals	41,144,172	44,259,710

Please refer page 77-88 in the audited financial statements 2023 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 2023 (AED 000s)		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	61,740,206	21,333,132	3,593,762	1,378,758	1,052,231	-	-
2	Debt securities	14,765,277	-	-	-	-	-	-
3	Total	76,505,483	21,333,132	3,593,762	1,378,758	1,052,231	-	-
4	Of which defaulted	1,003,556	1,294,919	30,961	-	-	-	-

31 December 2022 (AED 000s)		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	52,978,592	21,397,886	3,904,424	1,478,497	302,783	-	-
2	Debt securities	8,368,170	-	-	-	-	-	-
3	Total	61,346,762	21,397,886	3,904,424	1,478,497	302,783	-	-
4	Of which defaulted	943,864	1,380,464	120,280	-	-	-	-

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 Aa3	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 B3	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 2023 (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
1	Sovereigns and their central banks	25,312,208	1,000,000	25,312,208	-	463,647	2%
2	Public Sector Entities	8,178,698	4,080,355	8,101,035	935,524	7,848,856	87%
3	Multilateral development banks	-	1,600,000	-	-	-	0%
4	Banks	8,865,662	1,556,337	8,705,450	865,608	5,064,304	53%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	47,503,976	41,895,705	43,950,719	11,569,557	52,839,553	95%
7	Regulatory retail portfolios	4,243,866	4,099,172	3,885,489	48,656	3,281,099	83%
8	Secured by residential property	12,095,420	9,736	12,095,420	-	4,695,753	39%
9	Secured by commercial real estate	8,536,044	660,576	8,049,976	11	8,049,987	100%
10	Equity Investment in Funds (EIF)	118,872	-	118,872	-	176,770	149%
11	Past-due loans	7,423,297	456,411	2,793,240	439,198	3,525,968	109%
12	Higher-risk categories	427,254	-	427,254	-	640,881	150%
13	Other assets	3,193,491	100,327	3,193,491	89,212	1,935,581	59%
14	Total	125,898,786	55,458,619	116,633,151	13,947,767	88,522,400	68%

31 December 2022 (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
1	Sovereigns and their central banks	20,409,347	165,285	20,409,347	-	605,042	3%
2	Public Sector Entities	6,334,667	3,896,848	6,146,502	1,301,583	6,928,515	93%
3	Multilateral development banks	-	1,376,854	-	-	-	0%
4	Banks	6,272,325	1,920,570	6,148,821	905,849	2,876,833	41%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	44,964,802	36,957,277	41,805,675	8,741,365	47,961,355	95%
7	Regulatory retail portfolios	4,035,543	3,170,631	3,876,100	50,905	3,355,019	85%
8	Secured by residential property	10,234,751	33,297	10,234,120	-	3,966,311	39%
9	Secured by commercial real estate	7,827,336	1,356,831	7,366,838	573	7,367,410	100%
10	Equity Investment in Funds (EIF)	134,697	-	134,697	-	202,046	150%
11	Past-due loans	7,129,848	347,184	3,062,762	331,849	3,875,244	114%
12	Higher-risk categories	290,581	-	290,581	-	435,872	150%
13	Other assets	3,816,483	264,295	3,816,483	88,055	2,630,189	67%
14	Total	111,450,380	49,489,074	103,291,928	11,420,179	80,203,837	70%

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 2023 (AED 000s)										
Asset Classes		RWA Weights								Total credit exposures amount (post CCF and post-CRM)
		0%	20%	35%	50%	75%	100%	150%	Others	
1	Sovereigns and their central banks	24,385,869	578,364	-	-	-	347,975	-	-	25,312,208
2	Public Sector Entities	-	1,376,091	-	173,660	-	7,486,808	-	-	9,036,559
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
4	Banks	-	2,635,578	-	4,796,615	-	2,138,835	30	-	9,571,058
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	-	1,054,608	-	1,528,788	-	44,625,840	267,714	8,043,325	55,520,275
7	Regulatory retail portfolios	-	-	-	-	2,612,183	1,321,961	-	-	3,934,145
8	Secured by residential property	-	-	11,376,816	-	18,943	699,661	-	-	12,095,420
9	Secured by commercial real estate	-	-	-	-	-	8,049,987	-	-	8,049,987
10	Equity Investment in Funds (EIF)	-	-	-	-	-	3,075	115,797	-	118,872
11	Past-due loans	-	-	-	-	-	2,645,378	587,060	-	3,232,438
12	Higher-risk categories	-	-	-	-	-	-	427,254	-	427,254
13	Other assets	1,500,708	-	-	-	-	1,679,606	-	102,390	3,282,703
14	Total	25,886,577	5,644,641	11,376,816	6,499,064	2,631,126	68,999,126	1,397,854	8,145,715	130,580,918

31 December 2022 (AED 000s)										
Asset Classes		RWA Weights								Total credit exposures amount (post CCF and post-CRM)
		0%	20%	35%	50%	75%	100%	150%	Others	
1	Sovereigns and their central banks	19,370,322	542,479	-	-	-	496,546	-	-	20,409,347
2	Public Sector Entities	-	521,775	-	204,300	-	6,722,010	-	-	7,448,085
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
4	Banks	-	3,994,853	-	1,963,914	-	1,095,899	4	-	7,054,670
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	-	903,323	-	1,210,843	-	40,048,842	-	8,384,032	50,547,040
7	Regulatory retail portfolios	-	-	-	-	2,287,944	1,639,061	-	-	3,927,005
8	Secured by residential property	-	-	9,632,448	-	26,872	574,801	-	-	10,234,120
9	Secured by commercial real estate	-	-	-	-	-	7,367,410	-	-	7,367,410
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	134,697	-	134,697
11	Past-due loans	-	-	-	-	-	2,433,347	961,265	-	3,394,612
12	Higher-risk categories	-	-	-	-	-	-	290,581	-	290,581
13	Other assets	1,413,723	-	-	-	-	2,397,899	-	92,916	3,904,538
14	Total	20,784,046	5,962,430	9,632,448	3,379,057	2,314,816	62,775,816	1,386,548	8,476,948	114,712,107

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 contract default 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).

A Monte Carlo simulation engine is used to estimate the Potential Future Exposure (PFE) to derivative transaction using 95% confidence level. The exposure simulation model simulates future MTM of the derivative transactions. Simulated exposures include the effect of credit mitigants such as netting and collateral.

Credit limits for CCR are assessed and allocated using the PFE measure. A number of factors are taken into account when setting credit limits for individual counterparties, including but not limited to the credit quality and nature of the counterparty, the rationale for the trading activity entered into and any wrong-way risk considerations.

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' in a derivative exposure arises when there is significant correlation between the underlying asset and the counterparty, which in the event of default would lead to a significant MTM loss to the counterparty. WWR may arise due to specific factors affecting the counterparty (specific WWR) like rating downgrade or occurs when the trade position is affected by macroeconomic factors (general WWR) like inflation in a particular region.

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.

CCR regulatory capital 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 2023 (AED 000s)	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	221,093	247,515		1.4	656,051	474,420
	-	-		-	-	-
Simple Approach for credit risk mitigation (for SFTs)					-	-
Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
					-	-
Total						474,420

31 December 2022 (AED 000s)	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	319,606	395,069		1.4	1,000,545	774,613
	-	-		-	-	-
Simple Approach for credit risk mitigation (for SFTs)					-	-
Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
					-	-
Total						774,613

10.3 Credit valuation adjustment capital charge (CCR2)

The Bank has adopted the standardized approach for calculating risk weighted assets for CVA risk. The process followed by the bank is as follows:

- Exposure at Default (EAD) is calculated based on the Counterparty Credit Risk (CCR) standard.
- Single Name Exposure (SNE) for each counterparty is calculated by multiplying the EAD by the Supervisory Discount Factor (DF) for each netting set.
- Capital is calculated using the formula applicable for Banks.

The final calculation performed is to multiply the capital by 12.5 to derive at the CVA RWA.

The following table provides the CVA regulatory calculations with a breakdown by standardised approach.

(AED 000s)		31 December 2023		30 June 2023	
		EAD post-CRM	RWA	EAD post-CRM	RWA
1	All portfolios subject to the Standardised CVA capital charge	656,051	281,971	928,292	298,963
2	All portfolios subject to the Simple alternative CVA capital charge	-	-	-	-

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10.4 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 2023 (AED 000s)	Credit Exposure							
Regulatory Portfolio	0%	20%	50%	75%	100%	150%	Others	Total
Sovereigns	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	22,451	-	-	22,451
Multilateral development banks (MDBS)	-	-	-	-	-	-	-	-
Banks	-	129,091	147,070	-	546	-	-	276,707
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	331,924	-	23,682	355,605
Regulatory retail portfolios	-	-	-	22	-	-	-	22
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	1,265	-	-	-	-	-	-	1,265
Total	1,265	129,091	147,070	22	354,921	-	23,682	656,051

31 December 2022 (AED 000s)	Credit Exposure							
Regulatory Portfolio	0%	20%	50%	75%	100%	150%	Others	Total
Sovereigns	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	62,053	-	-	62,053
Multilateral development banks (MDBS)	-	-	-	-	-	-	-	-
Banks	-	136,582	229,971	-	-	-	-	366,553
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	559,770	-	11,202	570,972
Regulatory retail portfolios	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	573	-	-	573
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	394	-	-	394
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	-	136,582	229,971	-	622,790	-	11,202	1,000,545

10.5 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 2023 (AED 000s)	a	b	c	d	e	f
	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	-	-	-	-	-	-
Cash - other currencies	-	470,071	-	44,080	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	470,071	-	44,080	-	-

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31 December 2022 (AED 000s)	a	b	c	d	e	f
	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	-	-	-	-	-	-
Cash - other currencies	-	607,142	-	139,727	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	607,142	-	139,727	-	-

10.6 Exposures to central counterparties (CCR8)

The following table provides a comprehensive picture of the bank's exposures to central counterparties. In particular, the template includes all types of exposures and related capital requirements.

AED 000s		31 Dec 2023		31 Dec 2022	
		EAD (post-CRM)	RWA	EAD (post-CRM)	RWA
1	Exposures to QCCPs (total)		28,547		8,236
2	Exposures for trades at QCCPs (excluding initial margin and default fund contribution); of which:	48,423	28,547	21,337	8,236
3	(i) OTC derivatives	48,423	28,547	21,337	8,236
4	(ii) Exchange-traded derivatives	-	-	-	-
5	(iii) Securities financing transactions	-	-	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-	-	-
7	Segregated initial margin	-		-	
8	Non-segregated initial margin	98,829	-	91,611	-
9	Pre-funded default fund contributions	-	-	-	-
10	Unfunded default fund contributions	-	-	-	-
11	Exposures to non-QCCPs (total)		-		-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contribution); of which:	-	-	-	-
13	(i) OTC derivatives	-	-	-	-
14	(ii) Exchange-traded derivatives	-	-	-	-
15	(iii) Securities financing transactions	-	-	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-	-	-
17	Segregated initial margin	-		-	
18	Non-segregated initial margin	-	-	-	-
19	Pre-funded default fund contributions	-	-	-	-
20	Unfunded default fund contributions	-	-	-	-

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 or at Amortized cost.

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 BRCC. 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 BRCC.

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 BRCC. 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 94 of the annual audited Financial Statements 2023.

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.

(AED 000s)		31 December 2023	31 December 2022
		RWA	RWA
1	General Interest rate risk (General and Specific)	593,683	718,779
2	Equity risk (General and Specific)	323,433	494,339
3	Foreign exchange risk	121,269	35,673
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7			
8	Securitisation	-	-
9	Total	1,038,385	1,248,790

12 Interest rate risk in the banking book (IRRBB)

12.1 IRRBB risk management objectives and policies (IRRBBA)

IRRBB is the current or prospective risk, to both the bank's capital and earnings, arising from movement in interest rates, which affect the bank's non-trading positions. This includes gap risk, which arises from the term structure of banking instruments, as well as option risk, which arises from option derivative positions or from optional elements embedded in financial instruments.

Economic value-based measures look at the change in economic value of banking book assets, liabilities and off-balance sheet exposures resulting from interest rate movement.

Earning based measures look at the expected change in Net Interest Income (NII) over 12-month periods resulting from interest rate movements.

Bank's governance, controls, and mitigation

The Bank's IRRBB policy sets guidelines and framework to identify, measure, evaluate, monitor, report and control or mitigate material sources of IRRBB on a timely basis. IRRBB policy aims to define the risk governance framework and IRRBB risk tolerance limits.

The Bank manages its IRRBB exposures using economic value as well as earning based measures. The Group treasury function is mandated to manage the interest rate risk centrally with Market Risk actions as 2nd line of defense independently assessing and implementing the framework and monitoring adherence to the risk appetite. Internal Audit in its role as the 3rd line of defense is accountable for providing independent and objective assurance of the IRRBB Management framework robustness. ALCO and part of its mandate has delegated authority from the Board of Directors to manage interest rate risk and ensuring an optimal and stable interest income stream whilst controlling the interest rate risk embedded in the Bank's balance sheet. The bank's IRRBB governance and risk management is governed by IRRBB policy, ALCO and BRCC on a periodic basis.

Measurement of IRRBB

The earnings and economic value perspectives are measured through impacts on Net Interest Income (NII) and Economic Value of Equity (EVE). These metrics are measured over a range of Basel defined interest rate shock scenarios.

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NII is 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 it includes commercial margins.

Economic Value of Equity ('EVE'), a value measure which estimates the potential change in the present value of the Group's Banking Book assets, liabilities and off-balance sheet exposures from defined movements in interest rates.

The bank also utilizes behavioral modelling for the below balance sheet products, in line with the Basel IRBB guidelines:

- Treatment for non-maturing deposits
- Treatment of additional optionality embedded in assets (e.g. prepayments of fixed rate loans)
- Treatment of additional optionality embedded in Liabilities (e.g. early redemption of time deposits)

All behavioral modelling assumptions are reviewed annually, proposed by Market Risk and approved by the ALCO.

Shock scenarios

The sensitivity of NII and EVE calculation presented in the section below is based on the six Basel prescribed shock scenarios applied to capture parallel as well as non-parallel risk measurements.

Mitigation

In the event of IRRBB exceeds risk relative to the bank's capital or earning or exceeds the supervisory threshold or IRRBB limits, ALCO approved strategies are adopted by the bank to mitigate the IRRBB risk exposure including hedging strategy.

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.

The Δ EVE numbers as at 31 December 2022 have been restated to include the additional parameters in the model change performed in 2023, in line with CBUAE guidelines.

In reporting currency (AED 000s)	Δ EVE	Δ NII (200 bps)	Δ EVE	Δ NII (200 bps)
Period	31 December 2023	31 December 2023	31 December 2022	31 December 2022
Parallel up	318,512	251,945	300,583	281,574
Parallel down	(89,015)	(331,889)	(126,136)	(337,555)
Steeper	(25,944)		(167,609)	
Flattener	353,730		387,172	
Short rate up	421,154		407,712	
Short rate down	(166,801)		(277,067)	
Maximum	(166,801)		(277,067)	
Tier 1 capital	14,407,022		13,120,757	

- Average repricing maturity assigned to NMDs is 2.5 years
- Longest repricing maturity assigned to NMDs is 5 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, to balance the mitigation 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 maintains a cross functional committee, the Operational Risk Management Committee (ORMC), the members of which are senior management with the responsibility to closely monitor the status of key Operational Risks across the Group and support timely execution of action plans.

The Group maintains a robust risk governance framework with accountability embedded throughout the organisation. The Group applies a “Three lines of defense” model within which the businesses and functions are responsible for the risks that form part of their respective areas and must ensure that these risks are identified, measured, mitigated, and monitored through appropriate control. Risk, Compliance and Finance are the major second lines of defense and are responsible for providing policy guidance, assurance, challenge, and oversight of risks they steward. Internal Audit is the third line, providing independent assurance to senior management and the Board and its subcommittees.

Accountability and responsibility is 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 Group;
- Requirements for at least annual assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses, tracking preventative actions to avoid future recurrence, and remedial actions to ensure the incident is appropriately managed;
- Development and testing of contingency plans to mitigate the threats that could disrupt the functioning of the Group to service its customers;
- Training and professional development of employees at all levels so as to maintain and increase their awareness of the areas they are responsible for;
- Mandatory annual risk and compliance training for all staff;
- Ethical and business standards (through the Group’s 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 policy defines the framework for the identification, assessment, control, monitoring and reporting of operational risks and events. The Control Testing Program was introduced to the Operational Risk Framework and Policy in 2023 as the 4th integral pillar of Operational Risk Management. Control Test programs have been developed to assess the operating effectiveness of controls recorded in departmental risk profiles. Reports are produced for the Operational Risk Management Committee.

The Group maintains an operational risk tool to record and manage all operational risk activities. The system collates operational risk information that enables the group to effectively analyse and report operational risk data.

Group Risk Management are responsible for embedding group-wide operational risk awareness, by delivering workshops, seminars and training courses on different operational risk disciplines, for employees throughout the year.

As part of the operational risk framework in the Group, Risk and Control Self Assessments (RCSA) are 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.

Information and Cyber Security is the practice that protects Information and Information Systems from unauthorized access, use, disclosure, disruption, modification, or destruction. The risk includes cyber threats to application, infrastructure, and cloud security. The Group's Information Security Management System is certified to ISO/IEC 27001, and compliant to UAE's National Electronic Security Authority (NESA) Standards, the Payment Card Industry (PCI) Data Security Standards and Article 6 of the Consumer Protection Regulation. The key risk to the Group is the safety and privacy of critical data such as customer account details and financial data that could lead to reputational damage, financial loss and regulatory violations.

The total capital requirement for Operational Risk as at 31 December 2023 is AED 783 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's the inability to meet obligations as they become due. It includes the inability to liquidate assets at reasonable prices and in the required timeframe. Liquidity risk can be caused by market disruptions or idiosyncratic events 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, repurchase agreements, 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 including replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets 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 funding maturities; and

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- Maintaining repurchase arrangements with various Banks, to allow for repo of fixed income investments to meet any liquidity needs that may arise.

Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the Advances to Stable Resources ratio (ASRR) (regulatory ratio) which is 87.25% as at 31 December 2023 (2022: 87.09%). In addition, the Group also uses the following ratios / information on a continuous basis for measuring liquidity risk:

- Eligible Liquid Assets ratio (ELAR) to total assets ratio;
- Net Loans to Deposits ratio (LDR); and
- Basel III ratios (including LCR and NSFR) are also monitored internally and by the ALCO and Board Risk and Compliance Committee (BRCC).

Stress Testing

Using various simulations, survival period measures the number of days/weeks it would take to completely utilize the Bank's liquid assets if the Bank were to lose deposits prematurely or if funds from wholesale markets were not renewed at maturity. It is measured monthly using three scenarios, which were developed to assess sensitivity to a Bank-specific and/or systemic crisis. Deposit loss simulations are carried out based on their degree of stability, while the value of certain assets is encumbered by an amount reflecting their readiness for liquidation in a crisis and the results are presented to BRCC and ALCO. Appropriate scenarios and limits are included in the Bank's Liquidity Risk Policy.

Bank's contingency funding plans (CFP)

The Bank maintains an up-to-date, comprehensive contingency funding plans that describes the measures to be taken in the event of a critical liquidity situation. CFP defines roles and responsibilities of each unit as well as defining procedures that should be followed in the event of a liquidity crisis event. This plan is reviewed and approved annually by BRCC and ALCO.

Please refer page 89 of the annual audited financial statements 2023 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	31 Dec 2023		30 Sep 2023		31 Dec 2022	
		Nominal amount	Eligible Liquid Asset	Nominal amount	Eligible Liquid Asset	Nominal amount	Eligible Liquid Asset
(AED 000s)							
1.1	Physical cash in hand at the bank + balances with the CBUAE	15,133,339		15,326,334		15,677,988	
1.2	UAE Federal Government Bonds and Sukuks	5,621,204		3,871,777		1,775,346	
	Sub Total (1.1 to 1.2)	20,754,543	20,754,543	19,198,111	19,198,111	17,453,334	17,453,334
1.3	UAE local governments publicly traded debt securities	1,554,630		1,573,403		1,055,000	
1.4	UAE Public sector publicly traded debt securities	-		-		-	
	Subtotal (1.3 to 1.4)	1,554,630	1,554,630	1,573,403	1,573,403	1,055,000	1,055,000
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	666,201	666,201	676,844	676,844	387,490	387,490
1.6	Total	22,975,374	22,975,374	21,448,358	21,448,358	18,895,824	18,895,824
2	Total liabilities		113,094,418		111,073,278		102,117,522
3	Eligible Liquid Assets Ratio (ELAR)		20.31%		19.31%		18.50%

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	31 Dec 2023	30 Sep 2023	31 Dec 2022
1	Computation of Advances	(AED 000s)		
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	82,061,841	81,784,616	73,544,886
1.2	Lending to non-banking financial institutions	2,390,221	2,445,406	2,310,090
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	1,864,999	1,729,608	2,072,186
1.4	Interbank Placements	2,067,139	1,681,271	486,308
1.5	Total Advances	88,384,200	87,640,901	78,413,470
2	Calculation of Net Stable Resources			
2.1	Total capital + general provisions	17,126,845	16,293,336	15,130,593
	Deduct:			
2.1.1	Goodwill and other intangible assets	159,903	149,385	110,227
2.1.2	Fixed Assets	1,617,391	1,651,893	2,237,933
2.1.3	Funds allocated to branches abroad	-	-	-
2.1.5	Unquoted Investments	280,590	294,205	381,867
2.1.6	Investment in subsidiaries, associates and affiliates	102,390	91,960	92,916
2.1.7	Total deduction	2,160,274	2,187,443	2,822,943
2.2	Net Free Capital Funds	14,966,571	14,105,893	12,307,650
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	7,100,680	8,680,063	6,882,576
2.3.3	Refinancing of Housing Loans	-	-	-
2.3.4	Borrowing from non-Banking Financial Institutions	3,547,418	2,906,236	2,537,007
2.3.5	Customer Deposits	73,573,130	72,669,825	68,037,628
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	2,111,725	2,111,725	275,475
2.3.7	Total other stable resources	86,332,953	86,367,849	77,732,686
2.4	Total Stable Resources (2.2+2.3.7)	101,299,524	100,473,742	90,040,336
3	Advances to stable resources ratio (1.5 / 2.4*100)	87.25%	87.23%	87.09%

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, Remuneration and Governance 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 individual recommendations for Senior Management and Material Risk Takers).
- Review and approve the annual Bonus Pool in the context of the Bank's risk appetite and risk tolerance, as well as the process for allocating the pool to the different units in the Bank.
- Review and approve the annual bonus for the CEO, 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, Material Risk Takers, Malus and Clawback, Good Leaver Status, 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.

From a Corporate Governance perspective, the Committee is required to:

- Develop and recommend to the Board of Directors a set of corporate governance principles and keep abreast of developments with regard to corporate governance to enable the Committee to make recommendations to the Board of Directors in light of such developments as may be appropriate.
 - Manage and oversee the evaluation of the Board of Directors and its committees.
 - Establish, monitor and recommend the purpose, structure and operations of the various committees of the Board of Directors, the qualifications and criteria for membership on each committee of the Board and, as circumstances dictate, make any recommendations regarding periodic rotation of directors among the committees.
 - Periodically review the remit, composition and performance of each committee of the Board of Directors and make recommendations to the Board for the creation of additional committees or the elimination of existing Board committees.
 - Responsible for the selection processes of the Directors. The Committee may rely on the advice and collaboration of specialized consulting companies or any other external advisor in the selection processes for candidates.
 - Review and recommend the Board Remuneration to the Board of Directors which is then to be recommended to the Annual General Meeting of the shareholders.
 - Assess periodically whether Directors are independent of management and independent in character and judgment. The Committee also assesses whether there are any business or other relationships that could materially affect or interfere with the exercise of objective, unfettered or independent judgment by the Director or the Director's ability to act in the best interests of the Bank and its subsidiaries.
 - Review periodically the requisite skills and characteristics of its members in compliance with the Directors' Abilities Matrix and establish the Directors' continuing professional development yearly program.
 - Oversee the Bank's Corporate Social Responsibility objectives and implementation program.
 - Oversee the Board of Directors' Report and the Governance Report before submission to the authorities and to the Annual General Meeting of the shareholders.
-

Scope of the remuneration policy

CBD's Reward Strategy aims to competitively reward the achievement of sustainable performance that is aligned to the Bank's Purpose and CODE values. The Bank's main objective is to attract, motivate and retain top talent and valued performers, by considering factors related to performance or experience.

CBD's reward policy explains the Bank's approach to creating a high-performance workplace through the effective use of differentiated remuneration components with the purpose of:

- Making consistent reward decisions aligned to CBD's strategy;
- Paying competitively against the market based on differentiated levels of sustainable performance;
- Retaining top talent.

CBD's Reward policy applies to all employees of the Bank, whether the employee is on the payroll of the Bank or employed through any current or future subsidiaries of the Bank.

Senior Management and Material Risk-Takers (MRTs)

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.

At the beginning of 2023, the Bank reviewed the MRT identification criteria outlined in the CBUAE Corporate Governance Regulations and Corporate Governance Standards published in September 2019 and confirmed those positions that qualify as Material Risk Takers according to the regulations.

MRTs were communicated their MRT status for 2023. Any subsequent MRT status will be confirmed at an individual level whenever the need arises. MRTs are subject to the Material Risk Taker policy and Malus and Clawback Policy in respect to any variable pay awards.

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 principles:

Results-driven: CBD rewards sustainable outcomes that result in the financial soundness of the Bank, measured through "performance" for current results and through identified "potential" for future results. There should be a strong alignment between reward and the interests of our stakeholders, including shareholders, customers and employees.

Differentiated: Remuneration outcomes are strongly differentiated amongst employees exhibiting different levels of performance, with greater level of rewards being directed at those identified as "top talent" and top performers.

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

Change-oriented: CBD offers greater level of rewards to roles and individuals driving transformation compared to those who follow the 'status quo'.

Risk aligned: Remuneration at CBD promotes sound Corporate Governance and effective Risk Management. The Reward Consequence Management Framework is in place to ensure prudent risk-taking and includes mechanisms to adjust variable compensation.

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.

Compensation of employees in control functions such as Risk, Compliance and Internal Audit is determined independently of the Bank's performance. Fixed compensation of employees in control functions such as Compliance and Internal Audit is higher than their variable pay.

Compensation consists of:

Fixed Pay. Fixed Pay is the sum of Basic Salary and Allowances and represents the amount of compensation in AED given to employees for their services in the performance of their day-to-day job.

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 overall performance level.

Any changes to MRTs' Fixed Pay will be approved by RemCo as indicated in the Reward policy and in RemCo's Terms of Reference.

Variable Pay. Variable Pay is the sum of discretionary variable remuneration. At CBD this is normally made up of the Annual Discretionary Bonus, Sales and Collections Incentives and LTIP (where applicable) and represents the amount of compensation in AED given to employees for the achievement of their Key Performance Indicators (KPIs) and the demonstration of CODE Values. Variable pay is paid at the discretion of the Bank, i.e., it's not guaranteed, and the amount of variable pay an employee receives will change year on year depending on individual, function and business performance.

The RemCo is responsible for approving HR Policies, in particular those impacting compensation and benefits for all employees and Executives. In addition, RemCo is responsible for approving individual Variable Pay awards for MRTs.

The Reward policy was last updated in October 2023 and approved by RemCo before publication on the Bank's intranet. The following were the significant changes made to the policy:

- Tighten wording reflecting that Variable Pay cannot exceed 100% of Fixed Pay and that exceptionally, following approval from the Nominations, Remuneration and Governance Committee after assessing the Bank's annual results, the variable pay can be uplifted to 150% of Fixed Pay.
- Update to reflect that there will only be one Promotions and Increments cycle in line with Year-End cycle

The above changes were made to increase transparency and internal governance and had no impact on individual 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 & Compliance Committee recommend changes to the Chief Internal Auditor's and the Chief Risk Officer's remuneration, respectively, to the Remuneration, Nomination and Governance 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 & Compliance Committee does the same for the Chief Risk Officer. Bonuses are recommended by each Committee 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 Risk and Compliance.

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 independent of the areas that they oversee such as cost of risk, recoveries, to enhance efficiencies or to reduce the cost of non-compliance.

Individuals in control functions are not eligible to participate in CBD's 2021-2023 Long Term Incentive Plan as the measures associated to the achievement of the plan are all financial in nature.

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 (Specific, Measurable, Achievable, Relevant, and Time-Bound).

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. 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 strategy map for the CEO's direct reports.

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, 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

At year-end 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 of “on-track” or “off-track”. This simplified rating approach encourages meaningful conversations between employee and line manager, centered around actionable feedback and tailored guidance to achieve performance and development goals by year-end.

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 incentive plans falls under the scope of the Incentive Committee, chaired by the Chief Human Resources Officer. Additional members include the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Credit Risk Officer and the Group Heads of Personal Banking and Corporate Banking

The Incentive Committee responsibilities include:

- Defining the Incentive Framework, which contains the set of principles and requirements that all Incentive Plans at CBD need to include within their design;
- Approve individual Incentive Schemes and their changes for existing plans, as well as any other future incentive plans that may be required;
- Approve the Performance Management Bell curve for Incentive population in Personal Banking Group, Emerging Corporates and Collections;
- The periodic review of:
 - a. Payout Trends, Participation rate & Average Payout Per participant.
 - b. Total Payout as a % of Total Revenue for each incentive period.
- Approve deviations to the schemes / performance management subject to appropriate rationale;

- Approve SLAs pertaining to Incentive Payout and Performance Management;
- With regards to agencies used for Collections, the Committee will ensure proper due diligence and vendor management process is followed for selection and performance assessment, including making sure:
 - a. Competitive bidding on the agencies takes place.
 - b. The review of contracts is done according to the DOA.
- Ensure the Committee undertakes, annually, a review to assess the Committee's effectiveness. This review will be coordinated by the Secretary.

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. The Chief Risk Officer provides RemCo with an update on the Bank's risk appetite and risk tolerance – as part of the alignment between Risk and Reward – before approving the Discretionary Bonus Pool. In addition, RemCo approves the individual annual discretionary bonus awards for the CEO, the CEO direct reports and other Material Risk Takers.

Consequence Management Framework: 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, as the outcome of a disciplinary case, for outstanding Audit findings, not displaying CBD's CODE values or being involved in a Risk Event reported to RemCo. The level of the adjustment is proportional to the reason for the adjustment.
- 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.

Deferred remuneration

The Material Risk Takers policy came into effect 1st January 2023. This policy explains that variable pay for MRTs will be subject to deferral arrangements as well as Malus and Clawback. A separate Malus and Clawback policy came also into effect on 1st January 2023, which is applicable to all Variable Pay awards granted to Material Risk Takers.

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 Plans: The purpose is to drive the Bank's long-term strategy by aligning the total compensation of senior leadership with the key targets of the Strategic Plan as well as with long-term shareholder interests.

2021 – 2023 Long-Term Incentive Plan: This plan was introduced for a defined period of time, in line with the 3-year Strategic Plan approved by the Board of Directors. Only a small number of strategic and revenue generating senior leadership individuals

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are participating in this plan. Heads of Risk, Compliance and Audit are excluded as per Corporate Governance Regulations for Banks.

Material Risk Takers Long-Term Incentive Plan: Approved by the Remuneration, Nomination and Governance Committee in 2023, is the vehicle designed to comply with the UAE Central Bank's requirement of aligning Risk and Reward by having a significant portion of the Material Risk Taker's Variable Pay deferred for a period of at least three years. The value of the LTIP grant will be linked to individual performance and it will be between 20% and 40% of the value of the Annual Discretionary Bonus Award, depending on the employee's annual performance rating.

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)		31 December 2023		31 December 2022		
		Senior Management	Other Material Risk-takers	Senior Management	Other Material Risk-takers	
1	Fixed Remuneration	Number of employees	15	13	15	-
2		Total fixed remuneration	30,908	15,816	30,389	-
3		Of which: cash-based	30,908	15,816	30,389	-
4		Of which: deferred	-	-	-	-
5		Of which: shares or other share-linked instruments	-	-	-	-
6		Of which: deferred	-	-	-	-
7		Of which: other forms	-	-	-	-
8		Of which: deferred	-	-	-	-
9	Variable Remuneration	Number of employees	13	8	13	-
10		Total variable remuneration	20,810	4,188	17,886	-
11		Of which: cash-based	20,810	4,188	17,886	-
12		Of which: deferred	-	-	-	-
13		Of which: shares or other share-linked instruments	-	-	-	-
14		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total Remuneration (2+10)	51,718	20,004	48,275	-	

15.3 Special payments (REM2)

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

31 December 2023	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	-	-	1	560	1	191
Other material risk – takers	-	-	4	1,200	1	330

31 December 2022	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	-	-	1	100	2	1,944
Other material risk – takers	-	-	-	-	-	-

15.4 Deferred remuneration (REM3)

There are no deferrals in place at CBD as of 31 December 2023. The first variable pay deferral will be related to the 2023 Financial Year, with the annual grant taking place in February 2024.

16 Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in these Basel III – Pillar III disclosures, the effect of which are considered immaterial.

17 Acronyms

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