بنك دبي التجاري
Commercial Bank of Dubai

Integrated Report 2022

Backing your Ambition

Contents

Board of Directors' Report

Dear Shareholders,

On behalf of Commercial Bank of Dubai (CBD), we have the pleasure of presenting our report together with the audited consolidated financial statements for the year ended 31 December 2022.

The audited financial statements 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 United Arab Emirates.

FINANCIAL HIGHLIGHTS

Commercial Bank of Dubai (CBD) has delivered a record net profit of AED 1,825 million for the year ended 31 December 2022, up 25.8% year-on-year. Stronger revenue across Net Interest and Other Operating Income generated a significant increase in net profit. Notably, market interest rates have risen sharply, which contributed to the solid financial performance for the year. The UAE economic outlook and business confidence remain positive, supported by strong domestic activity and anticipated performance across all key economic sectors.

Net profit was AED 1,825 million, well above the prior year on account of higher net interest income and a solid operating performance.

Operating income for the year ended 31 December 2022 was AED 3,812 million, up 19.8%, attributable to an increase in Net Interest Income (NII) by 28.8% on higher interest rates, and growth in Other Operating Income (OOI) from strengthened business activities.

Operating expenses were AED 997 million, with the increase driven by investments in digitisation, business growth, risk management and governance. The cost to income ratio remains excellent at 26.14%.

Operating Profit grew by 21.5% to AED 2,816 million.

(AED Million)

Income Statement	**2022**	**2021**	***YoY Var***
Net interest income	2,676	2,078	***28.8%***
Other operating income	1,136	1,105	***2.8%***
Total Income	**3,812**	**3,183**	***19.8%***
Operating Expenses	997	865	***15.2%***
Operating Profit	**2,816**	**2,318**	***21.5%***
Net impairment allowances	991	867	***14.3%***
Net profit	**1,825**	**1,451**	***25.8%***

Asset quality the non-performing loan (NPL) ratio decreased to 6.73%, down from 6.95% at the end of 2021.

The net impairment charge totaled AED 991 million for the year ended 31 December 2022. The headline coverage ratio increased by 1,730 bps to 79.89% (December 2021: 62.59%) and 120.83%

inclusive of collateral for stage 3 loans. As at 31 December 2022, total allowances for impairments amounted to AED 5,012 million.

Total assets were AED 116.1 billion as at 31 December 2022, an increase of 1.6% compared to AED 114.2 billion as at 31 December 2021.

Net loans and advances were AED 74.6 billion, registering a decrease of 2.4% compared to AED 76.4 billion as at 31 December 2021.

Customers' deposits were AED 81.1 billion as at 31 December 2022, representing a decrease of 2.0% compared to AED 82.7 billion as at 31 December 2021. Low-cost current and savings accounts (CASA) constitute 47.4% of the total customer deposit base, while the financing-to-deposits ratio stood at 92.0%.

(AED Million)

Balance Sheet	**2022**	**2021**	***YoY Var***
Gross loans and advances	79,620	80,465	*(1.1%)*
Allowances of impairment	5,012	4,024	*24.6%*
Net loans and advances	**74,608**	**76,441**	***(2.4%)***
Total Assets	116,074	114,213	*1.6%*
Customer deposits	81,074	82,722	*(2.0%)*
Total Equity	13,882	13,567	*2.3%*

The bank's liquidity position remained robust with the advances to stable resources ratio at 87.09% as at 31 December 2022 (31 December 2021: 88.00%), compared to the Central Bank of the UAE maximum of 100%.

CBD's **capital ratios** remained strong with the capital adequacy ratio (CAR) at 16.04%, Tier 1 ratio at 14.90% and Common Equity Tier 1 (CET1) ratio at 12.40%. All capital ratios were well above the minimum regulatory thresholds mandated by the Central Bank of the UAE.

Key ratios %	**2022**	**2021**	***YoY Var (bps)***
Return on equity	15.99%	13.22%	*277*
Return on assets	1.58%	1.37%	*21*
Cost to income ratio	26.14%	27.18%	*(104)*
Non-performing loans (NPL)	6.73%	6.95%	*(22)*
Provision Coverage	79.89%	62.59%	*1,730*
Financing-to-deposit ratio	92.02%	92.41%	*(39)*
Advances to stable resources	87.09%	88.00%	*(91)*
Capital adequacy ratio	16.04%	15.82%	*22*
Tier 1 ratio	14.90%	14.66%	*24*
CET 1 ratio	12.40%	12.13%	*27*

The Board of Directors has proposed a cash dividend of 26.05%* of paid up share capital for the year and bonus share issue of 6.51%* of paid up share capital. The total proposed dividend is 50% of net profit.

* The cash dividend and bonus share issuance are subject to approval of the Central Bank of the UAE and shareholders' approval at the Annual General Meeting.

STRATEGY

CBD's vision is driven by our purpose 'Backing the Nation's Ambition'.

In 2022, the bank's total assets increased to AED 116 billion recording growth of 2% over 2021. Gross lending was moderately lower, in line with the overall UAE banking market, particularly in the last quarter, as a result of robust liquidity in the system. The bank's loan growth was particularly strong in retail mortgages for a second year in a row, one of the strategic growth opportunities for the bank. Net profit was higher at AED 1.8 billion, with interest rates driving higher net interest income alongside stronger OOI.

During the year, the bank continued to deepen relationships with its core franchise customers, a strategic priority for the bank. As a result, the bank's fee income was higher particularly in transaction banking and treasury activities. An important focus area remained Current and Savings Accounts (CASA) balances which were also higher. The bank continued expanding the Asset Backed Lending and Supply Chain Financing portfolio, which have grown impressively since their launch in 2021.

In 2022, the bank further delivered on its Default Digital agenda, one of the core strategic pillars with the launch of several digital solutions whilst also supporting existing customers to better leverage the bank's digital channels. For the year ended December 2022, 98% of all wholesale transactions were initiated through digital channels, while there was an 67% increase in mobile banking transactions. CBD received several high profile industry recognitions, including being named the "Forbes No.1 bank in the UAE" which affirmed the position as the bank of choice for all customer segments.

The bank continued to invest in people in 2022 with a focus on Emiratisation and high performance. During the year, the bank welcomed 20 UAE National Graduates as part of its Tumoo7 program. The bank also ran several initiatives during the year focused on physical, social and emotional health of its employees, helping to create a positive impact on their work and personal lives.

In 2023, the bank expects to grow market share within its core business segments, increasing the number of customers and depth of activity with existing customers. The retail business had an outstanding year in 2022, and the bank expects to continue growing predominantly in selected market segments with a focus on mortgages and investment solutions, enabled by market leading digital offerings.

CBD's strong set of core values, Collaboration, Ownership, Delivery and Excellence (CODE) are embedded in its culture and will guide the bank now and in the years ahead.

MARKET OVERVIEW

Global economic forecasts have been lowered with the expectation of a more pronounced economic slowdown characterised by high inflation and interest rates. Whilst there is evidence that there may be some country specific recessions, notably, the UAE is expected to continue to maintain broad based growth. Many regions globally are seeing a cost-of-living crisis, tightening financial conditions in addition to impacts from the crisis in the Ukraine, and lingering supply side effects of the pandemic all weighing on the economic outlook. Central Banks have reacted to higher inflation by sharply raising interest rates and tightening monetary settings. The Federal Reserve has increased the Federal Funds rate steeply in 2022, particularly in the second half with four straight 75bps hikes followed by a half a percentage point increase in December 2022, indicating a clear intent to bring inflation under control. As a result global growth, as forecast by the International Monetary Fund (IMF), is expected to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to then decline to 6.5 percent in 2023 and to 4.1 percent by 2024. Monetary policy is expected to stay restrictive with the objective to restore price stability, with other domestic policies aimed at alleviating the cost-of-living pressures.

In the UAE, the IMF forecasts near-term economic growth to remain strong, underpinned by a rebound in domestic activity, while elevated oil prices continue to support high surpluses in the fiscal and trade position. Inflationary pressures are expected to moderate gradually. Overall, GDP growth is projected to be above 6 percent in 2022, improving from 3.8 percent in 2021. Looking ahead, the UAE economic outlook remains positive, supported by robust domestic activity and strong business confidence. The IMF expects non-hydrocarbon growth to be around 4 percent in 2023 and to accelerate over the medium-term with the implementation of ongoing country wide strategic initiatives.

Dubai's GDP grew by 4.6% in the first nine months of 2022, compared to the same period last year supported by a rebound in the hospitality sector, which grew by 28%. Wholesale and Retail trade also grew by 1.6% over the same period and this sector now accounts for 24.1% of Dubai's nine-month GDP. The real estate sector was a real highlight in 2022 growing by 2.5% and accounting for 9.1% of the Emirate's GDP. Real estate sales during the first nine months increased by 76% year-on-year, following on from a strong domestic economy and international appetite for the sector together with overall strong investor confidence. Diversified growth across various market segments underscored the dynamism of Dubai's economy, highlighting how different activities and sectors integrate to underpin the overall robustness of the emirate's economy.

The domestic economy appears well positioned for the year ahead notwithstanding the global economic outlook and potential challenges associated with entrenched inflation, higher interest rates and macro-economic and geo-political uncertainties. Domestically, strong trading conditions and business confidence, higher oil prices and healthy fiscal buffers help mitigate potential headwinds and may pose upside risks to medium-term growth.

WHOLESALE BANKING GROUP (WBG)

The Wholesale Banking Group (WBG) comprises of the relationship management team for our mid-size and large corporate customers, family offices as well as institutional customers. In order to deliver the planned growth in a sustainable and diversified manner, the bank was able to leverage the product and digital capability as well as the established coverage teams to deliver strong performance.

The WBG team achieved excellent progress in 2022 across most performance units. This was facilitated by our focus to on-board a number of new to bank large corporate customers.

In line with the UAE's move towards a post-oil economy in 2022, the bank has developed strategic partnerships. These partnerships include schemes that aim to boost small and medium-size enterprises (SMEs) business activities in industries of strategic importance. The bank signed a partnership with Tawazun Strategic Development Fund in the Tawazun Venture Debt Program to provide financial facilitation to local SMEs in the defence and security sector that supports the expansion of their operations and development of capabilities.

The strategic focus led to growth in the banks trade finance flows with a sound mix of imports, exports and guarantee business spread across key segments. The strategic initiatives of Supply Chain Financing through a digital platform and Asset backed Lending remained a key enabler to enhancing the support provided to our customers.

The Syndications and Debt Capital Markets business continued to diversify business that helped contribute to the overall WBG growth, year-on-year, in both the number and volume of transactions.

During 2022, the division continued to deliver on the 'Default Digital' promise with a series of digital solutions rolled out for our WBG customers. The bank delivered a best-in-class Mobile App for our Corporate and Business banking clients, accessible across differing operating systems enabled across Mobile and Tablet devices. The iBusiness Mobile App offering more than 40 different functionalities supporting banking needs on the go, including, biometrics authentication, account summaries and enquiries, transaction approvals in three clicks, QR code initiation and the tracking of payments.

The bank also launched iBank, a digital customer on-boarding for Wholesale Banking customers. iBank is a relationship manager (RM) led automated workflow solution designed to assist the RMs with the account opening process. The application has eliminated the operational inefficiencies creating an integrated workflow with complete status visibility.

iManage was introduced towards the end of 2022. iManage is a digital solution for all Cash & Liquidity management needs. Through streamlined user interfaces the solution helps digitize daily tasks for customers and optimize returns. iManage provides WBG customers with a wide array of functionalities including a personalized 360-degree view of all cash and liquidity requirements, online creation and maintenance of accounts, real time credits of cash deposits and enhanced visibility of liquidity including fully automated Cash Pooling functionalities.

The Group won several awards in 2022, a testament to the bank's focus on the 'Default Digital' journey:

- "Best Mobile Banking Service Implementation" by MEA Finance.
- "Outstanding Supply Chain Finance Solution" – Middle East & Africa Innovation Awards

PERSONAL BANKING ("PBG")

PBG contributed a net profit of AED 712 million for 2022, growth of 44% year on year. The achievement was delivered through a broad based focus on revenue growth, continued digitization and efficiency and overall improved asset quality. PBG witnessed a steady increase in operating profit as a result of increased volumes, digital transformation and sound credit risk management. Non-funded income growth was driven by investment fees, foreign exchange (FX) and credit card spend.

The accelerated loan growth was mainly attributable to the market leading performance on mortgages and an increase in credit cards volumes in part via a portfolio acquisition. Steady growth in liabilities across individual and SME's translated into an asset-to-liability ratio of 44% by the end of 2022. The secured lending portfolio exhibited strong growth through strategic alliances with key partners and new product offerings.

In line with the Bank's ESG strategy, a collaborative approach was adopted with leading retailer "Sharaf DG Group" enabling customers to adopt clean energy solutions via sustainable and digital financing options. In addition, the bank also provided Electric vehicle loans to retail consumers.

The bank also signed a partnership with MyUnipath, a centralized admissions platform for universities worldwide, to provide education loans for the purpose of pursuing higher studies.

The Group won several awards in 2022, a testament to the innovative products and services offered by the bank:

- "Excellence in Digital Banking" Award - Finnovex Awards
- "Outstanding Robo Advisory" Award – The Digital Banker Digital CX Awards
- "Best Robo Advisory Provider" Award - MEA Finance Wealth & Investment Awards
- "Most Effective Investment Service Offering" Award - MENA Banking Excellence Awards
- "Best Innovation in Investment Banking" for CBD Investr – MEA Finance Banking Technology

CBD AL ISLAMI

CBD Al Islami continued to support customers extending sharia compliant products. During the year, the business continued its journey to provide a full range of Sharia compliant products and services, which includes Reverse Murabaha and Islamic Home Finance with instant pre-approval through the mobile App. The continuation of "Default Digital" strategy has resulted in simplified processes and documentations, thereby providing effective and efficient onboarding of customers and transaction processing.

Importantly, with regard to Sharia compliance, CBD ensures the Islamic window organization structure upholds the three lines of defense as mandated by Sharia governance framework. The business complies with all regulatory requirements including the standard for Financial Institutions housing an Islamic Window, as issued by the CBUAE. Notably, as aligned with CBD's commitment to the community, the bank continues to support the UAE eligible charitable organizations under the supervision of the bank Internal Sharia Supervision Committee (ISSC).

TREASURY

Large monetary and fiscal stimulus during the COVID-19 pandemic, coupled with supply chain issues, resulted in inflation becoming more entrenched than initially anticipated by the Federal Reserve; and becoming worse due to geopolitical events in Europe during the first quarter of 2022. As a result, the interest rate outlook materially changed from "lower-for-long," to aggressive tightening. Starting in March 2022, the US Federal Reserve has raised interest rates six times, taking the Fed Fund Rates from 0%-0.25% to 4.25%-4.50%, the steepest rate hikes since 1980s. This has resulted in a material drop in asset prices of US equites and fixed income as the Fed tries to balance its fight against inflation against managing a soft landing for the economy from any resulting slowdown, caused by the higher rates.

Despite tighter monetary conditions, domestic liquidity in the UAE has remained high boosted by strong post COVID-19 recovery, buoyant energy prices and international demand for local assets. Higher volumes in the real estate market and the success of several UAE equity IPO's this year reflect positive sentiments from both local and international investors.

Against this backdrop and to support customer requirements, CBD continued its focus on growing customer centric product range to support further expanded foreign exchange, risk management and investment solution capabilities, including participating in domestic equity IPOs.

DIGITAL AND INFORMATION TECHNOLOGY

During 2022 the bank continued to deliver on the digital transformation agenda, delivering more than 50 transformation projects and over 300 significant enhancements to existing platforms throughout the year.

During the year, CBD accelerated its digital transformation initiatives with a clear focus for our corporate and retail customers. The bank launched an industry best mobile platform for our corporate customers and also digitized an end-to-end on boarding experience for all new corporate clients whilst bringing in major user experience changes for our retail customers. We have also delivered a unified and enhanced user experience for all cash management and collection functions.

CBD also launched 'Hello Paisa', an instant remittance gateway for Pakistan. The bank also worked towards enabling strategic partnerships and ecosystems with Etisalat and regional Fintechs.

We continue to upgrade our infrastructure and platforms to ensure uninterrupted services to our customers. During the year, we also upgraded our Data Center and Disaster Recovery (DC and DR) infrastructure, Network and Security appliances and accelerated our cloud adoption including cloud native applications. These upgrades helped the bank to handle a significantly larger volume of transactions and reduce operational risks.

The Group's achievements have continued to be widely recognized by multiple industry accolades, including:

- "Best Technological Innovation in Financial Services" Award – Seamless Awards

PEOPLE

CBD continued to drive a high performance culture and back its people by attracting, the best talent, driving retention initiatives and developing capabilities in line with the growth objectives of the Bank. Our people were supported through a year of ongoing business and digital transformation, bringing about positive organizational change.

Emiratization efforts have continued as a strategic priority for the Bank, investing in UAE Nationals at all levels from graduate entry level, helping us to create a talent pipeline for the future, as well as appointing UAE Nationals in leadership and management positions.

The development of UAE Nationals has continued to be a focal point for the Bank year-on-year, in line with the ambitions of the UAE leadership and the directives of the CBD Management and Board. The Bank has invested more on professional certifications for its UAE National population as well as flagship development programs to develop specific and targeted capabilities.

The Bank's employee engagement score remained strong and trended upwards from last years' score. Notably, CBD scored above the Global Financial Services benchmark across Customer focus, Leadership, Communication, Collaboration, Purpose and Feedback. These are significant drivers for the future of the Bank and have been trending positive overtime. The survey has demonstrated a solid understanding of our revised Purpose and Customer promise at an organization level, the implementation of which is supporting us in driving a strong customer service mindset across the Bank.

CBD has continued to keep the health and wellbeing of its employees as a top priority coming out of the pandemic, continuing to offer a series of wellbeing initiatives designed to back employees emotionally, financially, socially and physically to help create a positive impact on both their work and personal lives. Sanad an Employee Assistance Programme (EAP) was launched to help employees cope with the different challenges they may face in their personal or professional lives. The Bank also ran a speaker series in collaboration with our CBD Digital Lab, on a variety of well-being themes. We continued with our regular physical activities bringing exercise to the office through 'Deskercise' and group fitness sessions in Boxing and Functional Training. Our employees continues to take part in volunteering activities to promote social wellbeing.

Learning and development (L&D) remained at the heart of our people priorities with a focus on professional certifications and digital upskilling. The Bank designed an enhanced Credit Skills program in partnership with Fitch Learning for a selection of UAE National Relationship Managers. Our digital upskilling sessions in the CBD Digital Lab developed over 150 employees on various topics such as Data Analysis, Innovation and Robotic Process Automation (RPA). CBD has also just launched our Digital Accelerator program to create a culture of enhanced Innovation and Digital Transformation.

Emirates Institute for Banking and Financial Studies (EIBFS) training enrolments have increased by 40% across the Bank, as we continue to back the professional development of our employees. Importantly, all bank employees successfully completed mandatory learning obligations.

We continue our strong commitment to drive a high performance culture by recognizing individuals, teams and line managers who demonstrated our CODE values while delivering outstanding customer service and operational excellence. Nearly 400 employees were recognized this year across our all-inclusive platforms: CODE and Spot awards.

CBD continues to remain committed to enhancing the employee experience, implementing a new HR Portal in 2022 to house all HR related information, designing a bi-weekly newsletter 'The People's Page' and continuing with quarterly Town halls with Senior management for effective and transparent communication across the organization.

CORPORATE SOCIAL RESPONSIBILITY ("CSR")

CBD remains committed to its role in the community as a responsible corporate citizen underpinned by our belief that businesses must operate ethically and with integrity. Our core pillars for CSR are unchanged and we continue to identify areas where the bank can contribute to society in the fields of Health, Education, Financial Literacy, Charity and volunteer programs.

On the occasion of marking Zayed Humanitarian Day following the legacy of the late Sheikh Zayed, CBD donated to 31 charitable, educational, research and training and rehabilitation centres for people of determination across UAE. In an effort to embrace the spirit of giving during the holy month of Ramadan, and as part of our continued partnership with Beit Al Kahir Society, CBD organized a volunteering program to distribute Iftar meal boxes.

CBD in affiliation with Emirates Red Crescent and the Islamic Affairs and Charitable Activities Department, collaborated in a "Back to School" initiative. CBD is also a proud sponsor of the "Bread for all campaign", which aims to serve underprivileged families and labourers. The Mohammed bin Rashid Global Centre for Endowment Consultancy (MBRGCEC), under the Awqaf and Minors Affairs Foundation (AMAF), announced the launch of the digital initiative to provide fresh bread free of charge to those in need through smart machines deployed in several outlets.

CBD was honoured with the Sheikha Latifa bint Mohammed Award for Childhood Creativity, launched by Dubai's Women's Association, in recognition of our continuous support as a strategic partner. Over many years CBD has supported the Award for childhood creativity by playing an essential role in motivating and inspiring young people to present innovative ideas.

The CBD volunteers club has arranged a number of volunteering opportunities and achieved over 2,350 volunteering hours. The bank was also awarded and recognized by the Dubai Center for Special Needs for our long-lasting partnership over the years.

CBD continued its 28-year-old partnership with Jabel Ali horse racecourse sponsored a number of races in 2022-23 as part of CBD's support to UAE Culture and sports heritage.

Commercial Bank of Dubai PSC

Group consolidated financial statements

For the year ended 31 December 2022

The audited Consolidated Financial Statements are subject to approval of the Central Bank of UAE and adoption by Shareholders at the Annual General Meeting.

Commercial Bank of Dubai PSC

Group consolidated financial statements

As at 31 December 2022

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Independent auditors' report

To the Shareholders of Commercial Bank of Dubai PSC

Report on the Audit of the Group Consolidated Financial Statements

Opinion

We have audited the Group consolidated financial statements of Commercial Bank of Dubai PSC ("the Bank") and its subsidiaries ("the Group"), which comprise the Group consolidated statement of financial position as at 31 December 2022, the Group consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying Group consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the Group consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Group consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (continued)

Impairment of loans and advances and Islamic financing

See Note 9 and 35 (b) to the Group consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The Group recognized allowances for credit losses in its Group consolidated financial statements using expected credit loss ("ECL") models. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL. Qualitative adjustments or overlays may also be recorded by the Group using credit judgement where the inputs, assumptions and / or modelling techniques do not capture all relevant risk factors captured by the models. This is considered a key audit matter, as the determination of ECL involves significant management judgement, estimates, use of complex models and this has a material impact on the consolidated financial statements of the Group.	Our audit procedures in this area include the following, among others: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, and our business understanding. • Obtaining an understanding of the ECL accounting estimate including, but not limited to, obtaining information about the entity's control environment in relation to the estimate, obtaining an understanding of the process by which the estimate is developed, understanding the methods, assumptions and data used to develop the accounting estimate. Assessing the design, implementation, and testing the operating effectiveness of selected relevant controls. • Involving our Financial Risk Management ("FRM") specialists, for a selection of models, to assess the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling and the application of expert credit judgment to determine the ECL. This included, where applicable, challenging key assumptions / judgments relating to significant increase in credit risk ("SICR"), definition of default, probability of default, use of macro-economic variables and probability weighted outcomes to check that the ECL amounts recorded are reflective of underlying credit quality and macroeconomic trends. • Testing the completeness and accuracy of the data used within the ECL calculation. • Involving our Information Technology ("IT") specialists to test the relevant general IT and application controls over key systems used in the ECL process. • Re-performing key aspects of the Group's SICR determinations for selected samples of loans and advances and Islamic financing to determine whether a SICR event was appropriately identified. • Evaluating the reasonableness of and testing a sample of management overlays. • Involving our valuation specialists on a sample basis to assess the reasonableness of the valuation of real estate collaterals held by the Group, relating to the determination of ECL.

Key Audit Matters (continued)

Impairment of loans and advances and Islamic financing (continued)

See Note 9 and 35(b) to the Group consolidated financial statements (continued)

The key audit matter	How the matter was addressed in our audit
	• Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades, including staging, assessing the financial performance of the borrower, source of repayment and future cash flows of the borrower, and as necessary, challenging the appropriateness of the ECL calculation for a sample of borrowers. • Assessing the adequacy of the Group's disclosures by reference to the requirements of the relevant accounting standards.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the Group consolidated financial statements and our auditors' report thereon ('Annual Report'). We obtained the Board of Directors' report prior to the date of our auditors' report, and the remaining sections of the Annual Report are expected to be made available to us after that date.

Our opinion on the Group consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the Group consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Group consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Group consolidated financial statements in accordance with IFRS Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, and for such internal control as management determines is necessary to enable the preparation of Group consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Group consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the Group consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Group consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the Group consolidated financial statements, including the disclosures, and whether the Group consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Group consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Decree Law No. 32 of 2021 we report that for the year ended 31 December 2022:

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii) the Group consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021;

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors' report is consistent with the books of account of the Group;

v) as disclosed in note 10 to the Group consolidated financial statements, the Group has purchased shares during the year ended 31 December 2022;

vi) note 33 to the Group consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2022 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021 or in respect of the Bank, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2022; and

viii) note 25 to the Group consolidated financial statements discloses the social contributions made during the year ended 31 December 2022.

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018 (as amended), we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates
Date: 1 February 2023

Commercial Bank of Dubai PSC
Group consolidated statement of financial position
As at 31 December 2022

	Notes	2022 AED'000	2021 AED'000
ASSETS			
Cash and balances with Central Bank	7	**15,760,429**	14,667,589
Due from banks, net	8	**3,766,507**	3,154,599
Loans and advances and Islamic financing, net	9	**74,607,821**	76,441,385
Investment securities, net	10	**8,810,092**	8,991,321
Investment in an associate	11	**92,916**	95,051
Investment properties, net	12	**185,768**	191,406
Property and equipment	13	**354,251**	309,425
Bankers acceptances		**8,570,044**	7,341,210
Positive mark to market value of derivatives	31	**1,024,009**	666,709
Other assets, net	14	**2,902,494**	2,353,901
TOTAL ASSETS		**116,074,331**	114,212,596
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**7,838,704**	6,120,214
Customer deposits and Islamic customer deposits	16	**81,074,379**	82,721,669
Notes and medium term borrowings	17	**2,034,019**	2,584,490
Due for trade acceptances		**8,570,044**	7,341,210
Negative mark to market value of derivatives	31	**923,911**	547,530
Other liabilities	18	**1,751,028**	1,330,269
TOTAL LIABILITIES		**102,192,085**	100,645,382
EQUITY			
Share capital	19.1	**2,802,734**	2,802,734
Tier 1 capital notes	19.2	**2,203,800**	2,203,800
Legal and statutory reserve	19.3	**1,401,447**	1,401,447
General reserve	19.4	**1,328,025**	1,328,025
Capital reserve	19.5	**38,638**	38,638
Fair value reserve	19.6	**(693,832)**	(61,174)
Retained earnings		**6,801,434**	5,853,744
TOTAL EQUITY		**13,882,246**	13,567,214
TOTAL LIABILITIES AND EQUITY		**116,074,331**	114,212,596

To the best of our knowledge, the Group's consolidated financial information presented fairly in all material respects the financial condition, results of operation and cash flows of the Group as of, and for, the years present herein.

The Group's consolidated financial statements were approved and authorized for issue by the Board of Directors on 1 February 2023.

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.

The report of the Auditors is set out on pages 2 to 6.

H.E. Humaid Al Qutami
Chairman

Dr. Bernd van Linder
Chief Executive Officer

Commercial Bank of Dubai PSC

Group consolidated statement of profit or loss

For the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Interest income and income from Islamic financing	20	**3,783,056**	2,689,147
Interest expense and distributions to Islamic depositors	21	**(1,107,183)**	(611,258)
Net interest income and net income from Islamic financing		**2,675,873**	2,077,889
Net fees and commission income	22	**755,618**	742,422
Net gains from foreign exchange and derivatives		**314,338**	229,060
Net gains from investments at fair value through profit or loss	23	**1,249**	3,452
Net gains from sale of debt investments at fair value through other comprehensive income	10	**398**	52,994
Share of gain of an associate	11	**8,583**	11,529
Dividend income		**6,261**	2,925
Other income	24	**49,902**	62,727
Total operating income		**3,812,222**	3,182,998
Reversal / (charge) of impairment allowance on due from banks		**884**	(632)
Impairment allowance on loans and advances and Islamic financing		**(1,076,339)**	(900,897)
Recoveries of loans and advances and Islamic financing		**141,112**	74,881
(Charge) / reversal of impairment allowance on investment securities		**(100)**	102
Impairment allowance on other assets	14	**(56,155)**	(40,872)
Total net income		**2,821,624**	2,315,580
Staff and other expenses	25	**(960,837)**	(835,413)
Depreciation and amortisation	12&13	**(35,768)**	(29,645)
Total operating expenses		**(996,605)**	(865,058)
Net profit for the year		**1,825,019**	1,450,522
Basic and diluted earnings per share	27	**AED 0.60**	AED 0.47

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.

The report of the Auditors is set out on pages 2 to 6.

Commercial Bank of Dubai PSC

Group consolidated statement of other comprehensive income

For the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Net profit for the year		**1,825,019**	1,450,522
Items that will not be reclassified to profit or loss:			
Realised gains on sale of equity investments held at fair value through other comprehensive income		**406**	-
Revaluation gains / (losses) on equity investments held at fair value through other comprehensive income		**4,528**	(17,717)
Actuarial loss on retirement benefits obligations	*18*	**(3,889)**	(2,367)
Items that may be subsequently reclassified to profit or loss:			
Changes in fair value of effective portion of cash flow hedge		**1,641**	4,773
Changes in fair value reserve of an associate	*11*	**(1,825)**	(396)
Changes in investments held at fair value through other comprehensive income:			
Realised gains on sale of debt investments	*10*	**(398)**	(52,994)
Revaluation losses on debt investments		**(632,715)**	(58,020)
Net change in investments held at fair value through other comprehensive income		**(633,113)**	(111,014)
Other comprehensive loss for the year		**(632,252)**	(126,721)
Total comprehensive income for the year		**1,192,767**	1,323,801

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.

The report of the Auditors is set out on pages 2 to 6.

Commercial Bank of Dubai PSC

Group consolidated statement of changes in equity

For the year ended 31 December 2022

	Share capital AED'000	Tier 1 capital notes AED'000	Legal and statutory reserve AED'000	General reserve AED'000	Capital reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balances as at 1 January 2022	**2,802,734**	**2,203,800**	**1,401,447**	**1,328,025**	**38,638**	**(61,174)**	**5,853,744**	**13,567,214**
Transactions with shareholders, recorded directly in equity								
Interest on Tier 1 capital notes	-	-	-	-	-	-	**(132,228)**	**(132,228)**
Cash dividend paid for 2021 (25.88%)	-	-	-	-	-	-	**(725,348)**	**(725,348)**
Directors' remuneration paid for 2021	-	-	-	-	-	-	**(19,250)**	**(19,250)**
Transfer to legal and statutory reserve	-	-	-	-	-	-	-	-
Share of Directors' remuneration of an associate (note 11)	-	-	-	-	-	-	**(909)**	**(909)**
Other comprehensive income								
Net profit for the year	-	-	-	-	-	-	**1,825,019**	**1,825,019**
Gain on sale of equity investments at fair value through other comprehensive income	-	-	-	-	-	**(406)**	**406**	-
Other comprehensive loss for the year	-	-	-	-	-	**(632,252)**	-	**(632,252)**
Total other comprehensive income	-	-	-	-	-	**(632,658)**	**1,825,425**	**1,192,767**
Balances as at 31 December 2022	**2,802,734**	**2,203,800**	**1,401,447**	**1,328,025**	**38,638**	**(693,832)**	**6,801,434**	**13,882,246**
Balances as at 1 January 2021	2,802,734	2,203,800	1,401,367	1,328,025	38,638	65,547	5,113,624	12,953,735
Transactions with shareholders, recorded directly in equity								
Interest on Tier 1 capital notes	-	-	-	-	-	-	(132,228)	(132,228)
Tier 1 capital notes transaction cost	-	-	-	-	-	-	(1,543)	(1,543)
Cash dividend paid for 2020 (20%)	-	-	-	-	-	-	(560,547)	(560,547)
Directors' remuneration paid for 2020	-	-	-	-	-	-	(15,400)	(15,400)
Transfer to legal and statutory reserve	-	-	80	-	-	-	(80)	-
Share of Directors' remuneration of an associate (note 11)	-	-	-	-	-	-	(604)	(604)
Other comprehensive income								
Net profit for the year	-	-	-	-	-	-	1,450,522	1,450,522
Other comprehensive loss for the year	-	-	-	-	-	(126,721)	-	(126,721)
Total other comprehensive income	-	-	-	-	-	(126,721)	1,450,522	1,323,801
Balances as at 31 December 2021	2,802,734	2,203,800	1,401,447	1,328,025	38,638	(61,174)	5,853,744	13,567,214

The attached notes from 1 to 37 form part of the Group’s consolidated financial statements.

The report of the Auditors is set out on pages 2 to 6.

Commercial Bank of Dubai PSC

Group consolidated statement of cash flows

For the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
OPERATING ACTIVITIES			
Net profit for the year		**1,825,019**	1,450,522
Adjustments for non-cash and other items:			
Depreciation and amortisation	*12 & 13*	**35,768**	29,645
Amortisation of premium / discount on investments		**(2,103)**	35,416
Amortisation of transaction cost on notes and medium term borrowings		**971**	1,034
Loss on foreign exchange translation		**19,152**	26,234
Realised gains on sale of investments		**(1,403)**	(55,911)
Net unrealized losses / (gains) on derivatives		**21,308**	(30,290)
Charge / (reversal) of impairment allowance on investment securities		**100**	(102)
Share of profit of an associate	*11*	**(8,583)**	(11,529)
Dividend income		**(6,261)**	(2,925)
Impairment allowance on loans and advances and Islamic financing		**1,076,339**	900,897
(Reversal) / charge of impairment allowance on due from banks		**(884)**	632
Impairment allowance on other assets	*14*	**56,155**	40,872
(Gains) / losses on disposal of property and equipment and investment properties		**(8)**	38
		3,015,570	2,384,533
Increase in statutory reserve with the UAE Central Bank		**(213,389)**	(595,414)
(Increase) / decrease in negotiable UAE Central Bank certificate of deposits with original maturity of more than three months		**(1,050,000)**	350,000
Decrease / (increase) in due from banks with original maturity of more than three months		**248,751**	(394,781)
Decrease / (increase) in loans and advances and Islamic financing		**757,225**	(12,053,710)
Increase in other assets		**(604,748)**	(383,211)
Increase in due to banks with original maturity of more than three months		**961,133**	1,227,206
(Decrease) / increase in customer deposits and Islamic customer deposits		**(1,647,290)**	12,970,836
Increase / (decrease) in other liabilities		**416,869**	(14,874)
Directors' remuneration paid		**(19,250)**	(15,400)
Net cash flow from operating activities		**1,864,871**	3,475,185
INVESTING ACTIVITIES			
Purchase of investments		**(10,243,748)**	(22,595,632)
Proceeds from sale of investments		**9,780,467**	18,728,201
Purchase of property and equipment and investment properties		**(77,477)**	(53,492)
Proceeds from sale of property and equipment and investment properties	*13*	**2,529**	4,472
Dividend received		**6,261**	2,925
Dividend from an associate	*11*	**7,984**	3,992
Net cash flow used in investing activities		**(523,984)**	(3,909,534)
FINANCING ACTIVITIES			
(Repayment) / Issuance of notes and medium term borrowings		**(551,442)**	819,397
Interest on Tier 1 capital notes		**(132,228)**	(132,228)
Tier 1 capital notes transaction cost		**-**	(1,543)
Dividend paid		**(725,348)**	(560,547)
Net cash flow (used in) / from financing activities		**(1,409,018)**	125,079
Net decrease in cash and cash equivalents		**(68,131)**	(309,270)
Cash and cash equivalents at 1 January		**13,020,439**	13,329,709
Cash and cash equivalents at end of the year	*28*	**12,952,308**	13,020,439
Supplemental disclosure:			
Interest income and income from Islamic financing received		**3,615,900**	2,822,304
Interest expense and distributions to Islamic depositors paid		**831,593**	767,489

The attached notes from 1 to 37 form part of the Group’s consolidated financial statements.

The report of the Auditors is set out on pages 2 to 6.

1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates (U.A.E.) in 1969 and is registered as a Public Joint Shareholding Company (PJSC) in accordance with Federal Law No. 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.

The consolidated financial statement of the Group for the year ended 31 December 2022 comprise the results of the Bank, its wholly owned subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

Details about subsidiaries and an associate:

i. CBD Financial Services LLC, is registered as a limited liability company in accordance with Federal Law No. 32 of 2021 in Dubai, United Arab Emirates. The Group holds a 100% interest. Its principal activity is providing brokerage facilities for local shares and bonds.
ii. CBD Employment Services One Person Company LLC, is registered as a limited liability company in accordance with Federal Law No. 32 of 2021 in Dubai, United Arab Emirates. The Group holds 100% interest. Its principal activity is the supply of manpower services.
iii. Attijari Properties LLC, is registered as a limited liability company in accordance with Federal Law No. 32 of 2021 in Dubai, United Arab Emirates. The Group holds a 100% interest. Its principal activity is self-owned property management services as well as buying and selling of real estate.
iv. Noor Almethaq Real Estate Development LLC, is registered as a limited liability company in accordance with Federal Law No. 32 of 2021 in Dubai, United Arab Emirates. The Group holds a 100% interest. Its principal activity is the development of real estate.
v. CBD (Cayman) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established for the issuance of debt securities.
vi. CBD (Cayman II) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established to transact and negotiate derivative agreements.
vii. VS 1897 (Cayman) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established to manage investment acquired in the settlement of debt.
viii. National General Insurance Co. (PJSC) is an associate of the Bank and is listed on the Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds a 17.8% interest in the associate. The management believes that it has significant influence on the associate by virtue of having representation on the Board of Directors of the associate.

2. BASIS OF PREPARTION

2.1 Statement of compliance

These Group consolidated financial statements 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.

As required by the UAE Securities and Commodities Authority (SCA) notification number 85/2009 dated January 6, 2009, the Group's exposure in cash and balances with Central Bank of the UAE, Due from Banks and Investment Securities outside the UAE have been presented under the respective notes.

2. BASIS OF PREPARATION (CONTINUED)

2.2 Functional and presentation currency

These Group's consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's functional and presentation currency, rounded to the nearest thousand unless otherwise stated.

2.3 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity are disclosed in note 4.

2.4 Basis of measurement

These Group's consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value through profit or loss (FVPL);
- financial instruments classified as fair value through profit or loss;
- financial assets at fair value through other comprehensive income;
- recognised financial assets and financial liabilities that are hedged items in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged. Amortised cost is adjusted for hedging gain or loss;
- end of service benefits that are measured at the present value of the defined benefit obligation.

2.5 Basis of consolidation

These Group's consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are entities controlled by the Group.

i. Business Combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired.

ii. Subsidiary

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary

2. BASIS OF PREPARATION (CONTINUED)

2.5 Basis of consolidation (continued)

ii. Subsidiary (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interest (NCI). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the cumulative translation differences recorded in equity;
- Derecognises the carrying amount of any non-controlling interest;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of profit or loss; and
- Reclassifies the parent's share of components previously recognised in consolidated OCI to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

iii. Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss.

2. BASIS OF PREPARATION (CONTINUED)

2.5 Basis of consolidation (continued)

iii. Associate (continued)

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit or loss of an associate'.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

Management reviews its share of investments in associates to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and choosing a suitable discount rate in order to calculate the present value of those cash flows.

iv. Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency translation gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements, except for the accounting standards mentioned in note 5.1 which are applied for the first time.

3.1 Financial Instruments

a) Recognition and initial measurement

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa.

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis, which is the date on which the Group becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

a) Recognition and initial measurement (continued)

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVPL) are added to or deducted from the fair value of the financial assets or financial liabilities respectively, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVPL are recognised immediately in the consolidated statement of profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in consolidated statement of profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to consolidated statement of profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

b) Fair Value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

b) Fair Value measurement (continued)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio. The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving similar investments, are based on the expected discounted cash flows.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

c) Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, which reflects the significance of inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm’s length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The hierarchy used by the Group is set out in note 6.2.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

c) Fair value hierarchy (continued)

The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction in the principal market at the measurement date under current market conditions (i.e., an exit price). Unadjusted quoted prices in active markets provide the best evidence of fair value. When there is no quoted price in an active market, the Bank applies other valuation techniques that maximize the use of relevant observable inputs and that minimize the use of unobservable inputs. Such valuation techniques include the following: using information available from recent market transactions, referring to the current fair value of a comparable financial instrument, applying discounted cash flow analysis, applying option pricing models, or relying on any other valuation technique that is commonly used by market participants and has proven to yield reliable estimates.

For over-the-counter (OTC) derivative financial instruments, fair value is determined using well established valuation techniques that incorporate assumptions based primarily on observable market inputs such as current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves, currency rates as well as price and rate volatility factors.

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.1.1 Financial assets

a) Classification

The Group classifies financial assets on initial recognition in the following categories:

i. Amortised cost;
ii. Fair value through other comprehensive income (FVOCI); and
iii. Fair value through profit or loss (FVPL).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

a) Classification (continued)

- **Business model assessment**

  The Group makes an assessment of the objective of a business model in which a financial asset is held at portfolio level, because this reflects the way the business is managed and information is provided to the management. The assessment is not determined by a single factor or activity. Instead, the entity considers all relevant information available at the date of the assessment. The information considered includes:

- the stated policies and objectives for the business and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio and the financial asset held within the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the portfolio and, in particular, the way in which those risks are managed;
- how the managers of the business are compensated; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

- **Assessment whether contractual cash flows is solely payments of principal and interest**

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), the Group considers the contractual terms of the instrument.

For the purpose of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

a) Classification (continued)

- **Assessment whether contractual cash flows is solely payments of principal and interest (continued)**

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

<u>Non-recourse</u>
In some cases, loans made by the Group that are secured by collateral of the borrower’s limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

i. Financial assets at amortized cost

A debt instrument, including loans and advances and Islamic financing asset is classified as being measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

a) Classification (continued)

ii. Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is classified as being measured at FVOCI if it meets the following two conditions and the debt instrument is not designated at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

The Group measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are not held for trading. This election is made on an investment-by-investment basis.

iii. Financial assets at fair value through profit or loss (FVPL)

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

b) Subsequent measurement

The Group measures financial instruments, such as derivatives and investments in equity and certain fixed income instruments, at fair value at each reporting date.

Financial asset classified as at FVOCI or FVPL are subsequently measured at fair value. Financial assets not carried at fair value are subsequently measured at amortized cost using the effective interest method, less expected credit allowances.

c) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition except in the period after the Group changes its business model for managing financial assets. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current and previous financial year there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on 'Modification of financial assets' and 'Derecognition of financial assets' described in note 3.1.1 (g) and 3.1.1 (h) respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

d) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in consolidated statement of profit or loss in the 'net gains from foreign exchange and derivatives' line item;
- for debt instruments measured at FVOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in the consolidated statement of profit or loss in the 'net gains from foreign exchange and derivatives' line item. Other exchange differences are recognised in OCI in the investments revaluation reserve;
- for financial assets measured at FVPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in consolidated statement of profit or loss in 'net gains from investments at FVPL';
- for equity instruments measured at FVOCI, exchange differences are recognised in OCI in the investments revaluation reserve; and
- Non-monetary assets and liabilities denominated in foreign currencies that are measured at FVPL are retranslated into the functional currency (AED) at the foreign exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

e) Impairment of financial assets

The Group recognizes, where applicable, loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are not measured at FVPL:

- balances with central banks;
- due from banks;
- debt investment securities;
- loans and advances, Islamic financing and other financial assets;
- loan commitments; and
- financial guarantee contracts.

No impairment loss is recognized on equity investments.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the life time expected credit losses (LTECL). LTECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Stage 3: Loans considered credit-impaired. The group records an allowance for the LTECLs.

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive); and

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, as the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original Effective Interest Rate (EIR), regardless of whether it is measured on an individual basis or a collective basis.

The key inputs into the measurement of ECL are the term structures of the following variables:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD)

These parameters are generally derived from internally developed statistical models, other historical data and are adjusted to reflect forward-looking information.

Details of these statistical parameters / inputs are as follows:

- PD – PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories of counterparties and exposures.
- EAD – EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.
- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, history of recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- loan to value ratio for retail exposure;
- date of initial recognition;
- remaining term of maturity;
- industry; and
- geography location of the borrower.

The groupings are subject to regular review to ensure that exposure within a particular group remain appropriately homogenous.

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.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

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:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

Restructured financial assets (continued)

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

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

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

Purchased or originated credit-impaired (POCI) financial assets
POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

Default definition (continued)

- **Non-retail portfolio**

  The non-retail portfolio comprises of loans which are managed individually by the Relationship Managers (RMs) with oversight from the Credit Risk team of the Group. These loans are appraised at least annually based on the financial information, other qualitative information and account conduct of the customer.

  A non-retail customer is identified as at default if the customer is materially delinquent for more than 90 days on any of its credit obligation.

- **Retail portfolio**

  The retail portfolio comprises of loans that are managed at a product level, and based on approved product programs. A retail account is identified as default if the customer is delinquent for more than 90 days. The default rate analysis for the retail portfolio is performed at the account level.

Assessment of significant increase in credit risk

The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The assessment is performed on monthly basis for each individual exposure.

Quantitative thresholds are established for the significant increase in the credit based on the movement in credit rating. In addition to quantitative criteria the Group has a proactive Early Warning Indicator (EWI) framework, based on which the Credit Risk team performs a portfolio quality review on a monthly basis. The objective of the same is to identify potentially higher risk customers within the performing customers.

Multiple macro-economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different macro-economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the probability of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the probability of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised.

In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment. The following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

Assessment of significant increase in credit risk (continued)

- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation;
- significant changes in the actual or expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macro-economic information (such as oil prices or GDP) is incorporated as part of the internal rating model.

The quantitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

As a back stop, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For retail lending the Group considers credit scores and events such as unemployment, bankruptcy or death. As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Improvement in credit risk profile

The Group has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded in stage (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 installments (for quarterly installments) have been made or 12 months (for installments longer than quarterly) curing period is met.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group relies on a broad range of forward looking information as economic inputs such as:

- House prices like real estate – Dubai and Abu Dhabi Index;
- Economic Composite Index (ECI);
- Non-Oil Economic Composite Index (NIECI);
- Oil Price per Barrel (OPB);
- Consumer Price Index (CPI) and
- Hotel Occupancy Dubai.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

Incorporation of forward-looking information (continued)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 40% (2021: 40%) probability of occurring, and two less likely scenarios, one upside at 30% (2021: 30%) probability of occurring and one downside at 30% (2021: 30%) probability of occurring.

The table below summarizes key macroeconomic indicators included in the economic scenarios in UAE at 31 December 2022 for the years ending 2022 to 2024:

	Base Scenario			Downside Scenario			Upside Scenario		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
Economic Composite Index	7.6%	-	2.1%	7.1%	(4.6)%	0.8%	7.9%	1.8%	2.3%
Oil Price – USD	97	66	59	118	57	57	97	63	58
Real Estate Index - Dubai	12,349	12,443	12,662	12,228	11,672	11,673	12,362	12,754	13,004

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve;
- for loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

f) Write-off

Loans and advances and Islamic financing and debt securities are written-off when the Group has no reasonable expectations of recovering the financial asset (either partially or in full). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written-off.

Recoveries of amounts previously written-off are included in 'recoveries' in the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

g) Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and / or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified, the Group assesses whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is material, the Group deems the arrangement is substantially different leading to derecognition.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms.

If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

g) Modification of financial assets (continued)

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the consolidated statement of profit or loss. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

h) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

On derecognition of a financial asset in its entirety, the difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain / loss allocated to it that had been recognised in OCI is recognised in consolidated statement of profit or loss.

Any cumulative gain / loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated statement of profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.2 Financial liabilities

a) Classification

The Group classifies its financial liabilities in the following categories:

i. Fair value through profit or loss; and
ii. Amortised cost.

i. Financial liabilities at FVPL

Financial liabilities are classified as at FVPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and is effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Subsequent measurement

Financial liabilities at FVPL are stated at fair value, with any gains / losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain / loss recognised in consolidated statement of profit or loss incorporates any interest paid on the financial liability.

However, for non-derivative financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to consolidated statement of profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVPL. This determination is made at initial recognition.

Fair value is determined in the manner described in note 3.1 (b).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.2 Financial liabilities (continued)

a) Classification (continued)

ii. Financial liabilities at amortised cost

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

b) Modification of financial liabilities

The Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is materially different from the discounted present value of the remaining cash flows of the original financial liability.

In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in the consolidated statement of profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in the consolidated statement of profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

c) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.3 Financial guarantee contracts and loan

Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised. Derecognition policies are applied to loan commitments issued and held.

The Group has issued no loan commitments that are measured at FVPL.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

3.2 Derivative financial instruments

a) Classification

The Group enters into derivative financial instruments including forwards, futures, swaps and options in the foreign exchange and capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVPL – financial assets held for trading" financial instruments.

b) Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

The positive mark to market values (unrealised gains) of derivative financial instruments is included in other assets. The negative mark to market values (unrealised losses) of derivative financial instruments is included in other liabilities.

c) Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as FVPL are taken to the consolidated statement of profit or loss.

3.3 Hedging instruments

As part of its asset and liability management, the Group uses derivatives for hedging purpose.

When derivatives are designated as hedges, the Group classifies them as either:

- fair value hedges which hedge the change in the fair value of recognised assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Hedging instruments (continued)

Hedge accounting

a) Hedge documentation

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group's risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an ongoing basis.

b) Hedge effectiveness testing

The hedge is regarded as highly effective if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or cash flows of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge effectiveness testing are within a range of 80 to 125 percent.

In case of a cash flow hedge, prospective hedge effectiveness is assessed by matching the critical terms of hedging instruments and hedged items.

c) Fair value hedge

The changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments is recognised in the consolidated statement of profit or loss.

d) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss.

e) Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognised in OCI remains in OCI until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the consolidated statement of profit or loss.

f) Hedges that do not qualify for hedge accounting

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss for the year.

3.4 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less allowance for expected credit loss, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Loans and advances and Islamic financing

Loans and advances and Islamic financing are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at FVPL.

In addition to conventional banking products, the Group offers its customers certain Islamic financing products, which are approved by Sharia Supervisory Board. Islamic financing consists of the following:

<u>Murabaha</u>
An agreement whereby the Group sells to a customer, commodity or asset (subject asset) on a deferred payment basis, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the subject asset and an agreed profit margin. Income is recognised on an accrual basis adjusted by actual income when received.

<u>Ijarah</u>
Ijara refers to lease of the asset, which the Group (Lessor) constructs or purchases as per customer (Lessee) request based on the promise to lease the asset for a fixed term against certain rent installment. Ijara can end by transferring the ownership of the asset to the lessee in case of Ijara Muntahia Bittamleek.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

<u>Musharaka</u>
An agreement whereby the Group and a customer contribute to a certain enterprise according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise. In principle Musharaka profit is distributed on declaration / distribution by the managing partner.

Islamic financing products are initially recognised at fair value and subsequently measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Investment securities

The 'investment securities' caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVPL or designated as at FVPL : these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses on equity instruments recognised in OCI are transferred to retained earnings on disposal of an investment.

3.7 Investment properties

The Group holds certain investment properties to earn rental income, for capital appreciation or both. The leased out or intended to lease out components have been classified as investment properties. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged using straight line method over the useful life of the asset. Estimated useful life of buildings is 30 to 60 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property is determined by comparing the proceeds from disposal with the carrying amount and is recognised in the consolidated statement of profit or loss under 'other income' in the year of retirement or disposal.

Transfers are made to and from investment properties when, and only when there is change in use evidenced by ending or commencing of owner-occupation, ending or commencement of an operating lease of another party or ending of construction or development.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Investment properties (continued)

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to be completed within one year from the date of classification.

3.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for granted land, which is stated at the market value at the date of grant.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing an item of property and is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The day-to-day servicing expenses of property and equipment are recognised in the consolidated statement of profit or loss as incurred.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment. These are included in the consolidated statement of profit or loss.

Property and equipment is impaired if the carrying amount of the asset or its cash generating unit (CGU) exceed its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss.

The cost of all property and equipment other than freehold land and capital work in progress is depreciated using the straight-line method over the following estimated useful lives:

Buildings	30 to 60 years
Leasehold improvements	5 to 10 years
Building renovations	7 years
Furniture and fixtures	7 years
Computer equipment	3 to 10 years
Computer software	7 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and prospectively adjusted if appropriate.

Capital work in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated in accordance with the Group’s policies.

3.9 Due to banks, notes and medium term borrowing

Amounts due to banks, notes and medium term borrowing are initially measured at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Repurchase agreement

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date the agreement is accounted for as a term borrowing depending on period of the agreement, and the underlying asset continues to be recognised in the Group's consolidated financial statement.

3.11 Customer deposits and Islamic customer deposits

Customer deposits are initially recognised at fair value, being the fair value of the consideration received. After initial recognition, all deposits are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs that are directly attributable to the acquisition or receipt of customer deposit.

The Islamic customer deposits are received by entering into following kinds of agreements:

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds (Rab ul Mal) which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba. In principle Mudaraba profit is distributed on declaration/distribution by the Mudarib.

Wakala

An agreement between Group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Wakil may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, Wakala profit is distributed on declaration/distribution by the Wakil.

Islamic customer deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit method.

3.12 Employees' terminal benefits

The Group provides for employees' terminal benefit in accordance with the UAE labor law. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. With respect to its UAE national employees, the Group makes contributions to the relevant government pension scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Defined contribution scheme

A defined contribution scheme is a post-employment benefit scheme under which an entity pays fixed contributions into a separate entity or to a government organisation and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated statement of profit or loss in the periods during which services are rendered by employees.

Pension and national insurance contributions for eligible employees are made by the Group to Pensions and Benefits Fund in accordance with the applicable laws of country where such contributions are made.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Employees' terminal benefits (continued)

Defined benefit scheme

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The liability recognised in the statement of financial position in respect of defined benefit gratuity schemes is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using assumptions in line with the guidelines of IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The Group has determined that, in accordance with the terms and conditions of the defined benefit scheme, and in accordance with statutory requirements, the present value of refunds or reductions in future contributions, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit scheme are recognised in staff and other expenses in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit scheme when the settlement occurs.

The below are the key actuarial assumptions used to value the liabilities using weighted average rates.

	2022	**2021**
Discount Rate	4.30% per annum	2.10% per annum
Salary Increase Rate	1.15% per annum	0.50% per annum

3.13 Share capital

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.14 Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Group's shareholders in the Annual General Meeting.

3.15 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.16 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and balances with the Central Bank (excluding statutory reserve), and amounts due from and due to banks with original maturity of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Revenue recognition

i. Interest income and expense

Interest income and expense for all interest bearing financial instruments except at FVPL, are presented in 'interest income' and 'interest expense' in the consolidated statement of profit or loss on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income and expense for financial instruments at FVPL is recognised as 'Net gains from investments at fair value through profit or loss'.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

ii. Income from Islamic financing and distributions to depositors

Income from Islamic financing is recognised in the consolidated statement of profit or loss using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Distribution to depositors (Islamic products) is calculated according to the Group's standard procedures and is approved by the Group's Sharia Supervisory Board.

iii. Fees and commission

Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Group to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Group based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Revenue recognition (continued)

iii. Fees and commission (continued)

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- other fees and commission income and expense are recognised as the related services are performed or received and they mainly relates to commission, brokerage fees and credit card expenses.

Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in ‘Interest income’.

- **Asset management services**
  The Group provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis.

- **Customer loyalty programme**
  The Group operates a rewards programme which allows customers to accumulate points when they purchase products on the Group’s credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

  In the case of the in-house administered aspects, the sale proceeds received are allocated between the products / services sold and the points issued. The proceeds allocated to the points are equal to their fair value. Fair value is determined by applying statistical techniques.

  For aspects where third party providers are used, the consideration allocated to the awards credits collected on behalf of the third party are charged to the consolidated statement or profit or loss at the time of supplying the rewards.

iv. Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease and is recorded under 'other income' in the consolidated statement of profit or loss.

v. Dividend income

Dividend income is recognised when the right to receive payment is established. The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- for equity instruments designated at FVOCI, dividend income is presented as Dividend Income; and
- for equity instruments at FVPL, dividend income is presented as 'Net gains from investments at FVPL'.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Revenue recognition (continued)

vi. Share of profit of an associate

Share of profit of an associate reflects the Group's share of the results of operations of the associate.

3.18 Provisions

A provision is recognised if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.19 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date, are translated at the foreign exchange rate ruling at spot date.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the consolidated statement of profit or loss.

Foreign currency differences arising on translation are generally recognized in the consolidated statement of profit or loss. However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedge is effective, are recognised in OCI.

3.20 Leasing

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

i. Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Leasing (continued)

i. Group acting as a lessee (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Leasing (continued)

ii. Group acting as a lessor (continued)

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

3.21 Fiduciary activities

The Group provides wealth management solutions to manage client assets. These assets are held in the Group's custody and are invested on behalf of the client in third party funds, and other securities like bonds and sukuk.

These assets and income arising from these assets are not included in the Group's consolidated financial statements as the risk and rewards incidental to ownership of these assets lie with the client.

3.22 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and continued to be recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

3.23 Derivative product types

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and interest rate swap.

Forwards

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

Options

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Derivative product types (continued)

i. Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group and potential future fluctuations.

ii. Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading are conducted under Assets & Liabilities Committee (ALCO) approved limits.

Derivatives are initially recognised in the consolidated financial statements at cost being its fair value, for the premium received /paid. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Subsequent to initial recognition derivatives (held for trading) are measured at fair value with fair value changes recognised in the consolidated statement of profit or loss.

3.24 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Bank (further adjusted for interest expense and transaction cost on Tier 1 capital notes) by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.25 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Executive Committee to make decisions about resources allocated to the segment and assess its performance, and for which distinct financial information is available. Segment results that are reported to the Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.26 Related parties

An entity is considered related party of the Group if:

a) A person or a close member of that person's family is related to the Group if that person:

i. has control or joint control of the Group;
ii. has significant influence over the Group; or
iii. is a member of the key management personnel of the Group.

b) An entity is related to a Group if any of the following conditions applies:

i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
iii. Both entities are joint ventures of the same third party.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.26 Related parties (continued)

iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
v. The entity is controlled or jointly controlled by a person identified in (a).
vi. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

c) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

Other than the transactions disclosed in note 33, the Group enters into transactions with other Government entities. In accordance with the exemption available in the revised IAS 24, these transactions with such related Government entities are not collectively or individually significant and have not been disclosed.

3.27 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of their non-financial assets to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in consolidated statement of profit or loss.

3.28 Interest Rate Benchmark Reform

Interbank offered rates (“IBORs”), such as the London Interbank Offered Rate (“LIBOR”), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (“RFRs”) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.28 Interest Rate Benchmark Reform (continued)

The majority of market LIBOR and other IBOR were discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023 with a synthetic alternative available until September 2024. The transition away from the IBORs covers most of the business units and support functions of the Group.

The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. This committee is running a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

IBOR reform exposes the Group to various risks, which the project group is reviewing and monitoring to manage the changes appropriately. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial and Market risk to the Group and its clients that IBOR reform disrupts markets giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable; and
- Accounting risk if the Group's hedging relationships fail and form an unrepresentative income statement volatility as financial instruments transition to RFRs.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR, the Group is working to amend contracts to include the addition of fallback clauses or replacement of the IBOR rate with an alternative benchmark rate. The Group has signed up to fallback mechanisms for centrally cleared derivatives and will transfer exposures to the new benchmark subject to Central bank guidance.

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the amounts of contracts that have yet to transition to an alternative benchmark rate. The Group considers that a contract is not yet transitioned to an alternative benchmark rate (and referred to as an 'unreformed contract') when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR. The Group has started to adopt SOFR for some USD Transactions.

The LIBOR Transition has so far had no material impact on the financial statements.

The table below represents the exposures to interest rate benchmark reform, which have yet to transition. Balances reported at amortised cost in the financial statements are disclosed at their gross carrying value and do not include any expected credit losses that may be held against them. Balances reported at fair value in the financial statements are disclosed at their fair value on the balance sheet date.

	USD LIBOR	**GBP LIBOR**	**Total**
	AED 000	**AED 000**	**AED 000**
Non-derivative financial assets	12,338,915	12,623	12,351,538
Derivative financial assets	393,328	-	393,328
Non derivative financial liabilities	6,243,231	-	6,243,231
Derivative financial liabilities	333,869	-	333,869

4. USE OF ESTIMATE AND JUDGEMENT

The preparation of these Group consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

Critical judgements in applying the Group's accounting policies
In particular, considerable management judgment is required in respect of the following issues:

4.1 Going concern
The Group's management has made an assessment of its ability to continue as going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

4.2 Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Units (CGU's) fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other available fair value indicators.

4.3 Financial asset classification
Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

4.4 Significant increase in credit risk
As explained in note 3.1.1 (e), ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

4.5 Establishing groups of assets with similar credit risk characteristics
When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3.1.1 (e) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk

4. USE OF ESTIMATE AND JUDGEMENT (CONTINUED)

4.5 Establishing groups of assets with similar credit risk characteristics (continued)

characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

4.6 Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3.1.1 (e) for more details on ECL.

4.7 Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Group's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario. When measuring ECL, the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Exposure at Default: EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

4.8 Credit risk management

In addition to the management of credit risk described in Note 35 b. (i), the Group has identified several more vulnerable sectors to an environment with higher interest rates, and reviews are being conducted on a more frequent basis. Sectors that currently are considered more vulnerable are:

- Contracting
- Retail
- Logistics
- Commercial Real Estate
- Education

The Group continues to apply robust underwriting standards to companies in the above sectors, especially for any new to bank customers. Extra measures, such as requiring additional approvals for disbursals of facilities have been implemented to ensure a high level of scrutiny over the credit management process. The Bank will continue to demonstrate sound prudence and vigor in underwriting across the retail sector whilst supporting customers and businesses across the UAE.

4. USE OF ESTIMATE AND JUDGEMENT (CONTINUED)

4.8 Credit risk management (continued)

On a case by case basis in the Institutional, Corporate and Personal banking segments, the Group has approved payment holidays to certain customers. The bank has extensively reviewed the past account conduct and payment history of the borrowers requesting for deferral, prior to approval. Significant judgment is applied when assessing whether the cash flow and liquidity issues faced by the customer are temporary or long term in nature.

The Bank exercises significant judgement in assessing and estimating areas such as Expected Credit Losses. The bank has updated its ECL model based on the latest macro-economic data provided by Moody's during Q4-2022.

Governance around IFRS 9 ECL models and calculations

Given the significant impact that the macro-economic scenarios and weightages will have on the Bank's ECL, the Bank has further strengthened its processes, controls and governance frameworks around macro-economic forecasting and the computation of ECL. The Bank's IFRS 9 Committee, which reports to the Executive Management, has primary responsibility for overseeing the Bank's ECL models. To ensure the ongoing integrity of ECL calculations during times of extreme uncertainty and volatility, the Bank's IFRS 9 Committee exercises oversight by conducting regular reviews of the portfolio. The committee has been closely monitoring the macro-economic inputs applied to the IFRS 9 model at the Bank and has recommended changes required during the current year in the light of relevant information received. The committee continually assess the performance of the Bank's portfolio, ensuring that credit risk behaviors align with the significant increase in credit risk policy and that the staging criteria remain relevant.

4.9 Fair value measurement of financial instruments

The Group's existing policy on fair value measurement of financial instruments is disclosed in note 3.1 (b).

4.10 Investment properties

The Group's existing policy on the recognition and measurement of investment properties is disclosed in note 3.7.

As the real estate market has recovered significantly and became highly active, the Bank has not identified any significant impact to the fair values of investment properties during the year ended 31 December 2022.

4.11 Regulatory updates

The regulations which were issued by CBUAE to mitigate the repercussions of COVID 19 pandemic, which are still effective as at 31 December 2022 are detailed below:

- Reduction of the reserve requirements by half for CASA deposits for all banks, from 14% to 7%;
- In order to relieve the pressure on financial institutions, the CBUAE, vide its official paper issued on 5 April 2020, has allowed banks to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of the expected volatility due to the COVID-19 crisis. The filter will allow Banks to partially add incremental ECL provisions back to their Tier 1 capital for the purpose of calculating capital adequacy ratios. Banks are however required to reverse this capital benefit in a gradual and phased manner over a period of 5 years (ending on 31 December 2024).

Concentration analysis:

Please refer to note 35-b (x), which discloses the sector categorization of assets as at 31 December 2022.

4. USE OF ESTIMATE AND JUDGEMENT (CONTINUED)

4.12 Corporate Tax

On 9 December 2022, the UAE Ministry of Finance released the Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023.

A rate of 9% will apply to taxable income exceeding a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,000 based on information released by the Ministry of Finance), a rate of 0% will apply to taxable income not exceeding this threshold and a rate of 0% on qualifying income of free zone entities. In addition, there are several other decisions that are yet to be finalized by way of a Cabinet Decision that are significant in order for entities to determine their tax status and taxable income. Therefore, pending such important decisions, the Group has considered that the Law, as it currently stands, is not substantively enacted as at 31 December 2022 from the perspective of IAS 12 – Income Taxes. The Group shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine their tax status and the application of IAS 12 – Income Taxes.

The Group is currently in the process of assessing the possible impact on the Group consolidated financial statements, both from current and deferred tax perspective, once the Law becomes substantively enacted.

4.13 Sanctions and Economic Updates

A variety of sanctions have been imposed on Russia in response to the conflict in Ukraine by a number of jurisdictions, which may be broadened in the foreseeable future to include further individuals, additional entities, and a wider range of goods and services than currently targeted.

Turkey and Egypt have experienced an economic crisis including a shortage of foreign currency, a rapidly rising inflation rate and devaluation of their currencies.

The Bank has assessed the exposure to this, and confirm no material exposures to these jurisdictions.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS "IFRS"

5.1 Relevant new and revised IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRS have been adopted in the Group consolidated financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods.

		Effective for annual periods beginning on or after
a	Amendments to IAS 16 Property, plant and equipment relating to proceeds before intended use	1 January 2022
b	Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets relating to onerous contracts.	1 January 2022
c	Amendments to IFRS 3 Business Combinations relating to reference to conceptual framework	1 January 2022
d	Annual improvements to IFRS standards 2018 - 2021	1 January 2022

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2022.

5.2 Relevant new and revised IFRS issued but not yet effective

The Group has not applied the following new and revised IFRS, amendments and interpretations that have been issued but not yet effective:

		Effective for annual periods beginning on or after
a	Amendments to IAS 8 Accounting policies, Changes in accounting estimates and errors	1 January 2023
b	Amendment to IFRS 17 Insurance contracts	1 January 2023
c	Amendment to IAS 1 and IFRS Practice Statement 2 relating to disclosure of Accounting Policies	1 January 2023
d	Deferred Tax related to Assets and liabilities arising from a Single Transaction – Amendment to IAS 12	1 January 2023
e	Amendments to IAS 1 Presentation of Financial Statements relating to classification of Liabilities as Current or Non-Current	1 January 2024
f	Lease Liability in a Sale and Leaseback – Amendment to IFRS 16	1 January 2024

Management anticipates that these IFRS and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

6. FINANCIAL ASSETS AND LIABILITIES

6.1 Financial assets and liabilities classification

The table below sets out the Group's financial assets and liabilities classification in accordance with the categories of financial instruments in IFRS 9:

31 December 2022	**Fair value through profit or loss AED'000**	**Fair value through OCI AED'000**	**Amortised cost AED'000**	**Total carrying amount AED'000**
Cash and balances with Central Bank	**-**	**-**	**15,760,429**	**15,760,429**
Due from banks, net	**-**	**-**	**3,766,507**	**3,766,507**
Loans and advances and Islamic financing, net	**-**	**-**	**74,607,821**	**74,607,821**
Investment securities, net	**247,170**	**6,445,009**	**2,117,913**	**8,810,092**
Bankers acceptances	**-**	**-**	**8,570,044**	**8,570,044**
Positive mark to market value of derivatives	**1,024,009**	**-**	**-**	**1,024,009**
Other assets, net	**-**	**-**	**710,010**	**710,010**
Total financial assets	**1,271,179**	**6,445,009**	**105,532,724**	**113,248,912**
Due to banks	**-**	**-**	**7,838,704**	**7,838,704**
Customer deposits and Islamic customer deposits	**-**	**-**	**81,074,379**	**81,074,379**
Notes and medium term borrowings	**-**	**-**	**2,034,019**	**2,034,019**
Due for trade acceptances	**-**	**-**	**8,570,044**	**8,570,044**
Negative mark to market value of derivatives	**923,911**	**-**	**-**	**923,911**
Other liabilities	**-**	**-**	**1,702,450**	**1,702,450**
Total financial liabilities	**923,911**	**-**	**101,219,596**	**102,143,507**
31 December 2021				
Cash and balances with Central Bank	-	-	14,667,589	14,667,589
Due from banks, net	-	-	3,154,599	3,154,599
Loans and advances and Islamic financing, net	-	-	76,441,385	76,441,385
Investment securities, net	256,910	5,973,091	2,761,320	8,991,321
Bankers acceptances	-	-	7,341,210	7,341,210
Positive mark to market value of derivatives	666,709	-	-	666,709
Other assets, net	-	-	796,863	796,863
Total financial assets	923,619	5,973,091	105,162,966	112,059,676
Due to banks	-	-	6,120,214	6,120,214
Customer deposits and Islamic customer deposits	-	-	82,721,669	82,721,669
Notes and medium term borrowings	-	-	2,584,490	2,584,490
Due for trade acceptances	-	-	7,341,210	7,341,210
Negative mark to market value of derivatives	547,530	-	-	547,530
Other liabilities	-	-	1,280,776	1,280,776
Total financial liabilities	547,530	-	100,048,359	100,595,889

6. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

6.2 Fair value measurement – Fair value hierarchy:

The table below shows categorization of fair value of financial assets and liabilities into different levels of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value
31 December 2022	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Investments				
Equity instruments and funds	**60,072**	**117,752**	**264,115**	**441,939**
Fixed and floating rate securities	**5,136,500**	**1,113,740**	**-**	**6,250,240**
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	**-**	**1,009,598**	**-**	**1,009,598**
Held for fair value hedge	**-**	**14,411**	**-**	**14,411**
Held for cash flow hedge	**-**	**-**	**-**	**-**
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	**-**	**(918,580)**	**-**	**(918,580)**
Held for fair value hedge	**-**	**(5,331)**	**-**	**(5,331)**
Held for cash flow hedge	**-**	**-**	**-**	**-**
	5,196,572	**1,331,590**	**264,115**	**6,792,277**
31 December 2021				
Investments				
Equity instruments and funds	54,107	-	281,389	335,496
Fixed and floating rate securities	4,417,192	1,477,313	-	5,894,505
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	-	663,944	-	663,944
Held for fair value hedge	-	2,164	-	2,164
Held for cash flow hedge	-	601	-	601
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	-	(541,329)	-	(541,329)
Held for fair value hedge	-	(3,959)	-	(3,959)
Held for cash flow hedge	-	(2,242)	-	(2,242)
	4,471,299	1,596,492	281,389	6,349,180

The following table shows a reconciliation of instruments measured at fair value (assets) and classified at level 3:

	2022	2021
	AED'000	AED'000
Balance at the beginning of year	**281,389**	300,347
Additions / transfers	**1,651**	1,960
Settlement and other adjustments	**(18,925)**	(20,918)
Balance as at end of year	**264,115**	281,389

6. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

6.2 Fair value measurement – Fair value hierarchy (continued):

The Level 3 financial instruments include private equity investments, and their valuations are based on the last net asset published by the fund manager. The sensitivity of the effect as a result of a change in the fair value of equity instruments under level 3, due to reasonable possible change in equity indices, with all other variables held constant, is as follows:

	Assumed level of change %	**2022 Impact on change in fair value AED'000**	2021 Impact on change in fair value AED'000
Upward Shift	5%	**13,206**	14,069
Downward Shift	5%	**(13,206)**	(14,069)

The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different from their fair values.

During the year there were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the current or prior year.

6.3 Fair value measurement – Hedges

The Group has hedged the fair value of certain fixed rate financial instruments. The combined net positive fair value of hedged components are AED 9.08 million (2021: net negative AED 1.79 million) with a combined notional amount of AED 2,777.1 million (2021: AED 157.1 million). The Group has no cash flow hedges as at the accounting date. Refer to note 31 for details.

7. CASH AND BALANCES WITH CENTRAL BANK

	2022 AED'000	2021 AED'000
Cash on hand	**830,692**	796,104
Balances with Central Bank U.A.E ("CBUAE")		
- Statutory reserves and other deposits	**13,529,737**	13,871,485
- Negotiable certificates of deposit	**1,400,000**	-
	15,760,429	14,667,589

Effective 28 October 2020, the CBUAE introduced new regulations regarding reserve requirements for deposit-taking licensed financial institutions. Under the new regulation, deposit-taking licensed institutions are allowed to draw on their reserve balances held in the CBUAE on any day up to 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that the daily average requirements over a 14-day reserve maintenance period is met. The level of reserves required changes periodically in accordance with business requirements and the directives of the Central Bank U.A.E.

Cash and balances with Central Bank is classified under stage 1 as per IFRS 9. However, these are low credit risk and there are no expected credit losses and hence no provision has been recognised.

8. DUE FROM BANKS, NET

	2022	2021
	AED'000	AED'000
Current and demand deposits	**2,800,919**	1,836,296
Overnight, call and short notice	**480,453**	585,300
Loans to banks	**486,308**	735,059
Gross due from banks	**3,767,680**	3,156,655
Less: Expected credit losses	**(1,173)**	(2,056)
Net due from banks	**3,766,507**	3,154,599
Within the U.A.E.	**77,545**	197,982
Outside the U.A.E.	**3,688,962**	2,956,617
	3,766,507	3,154,599

Due from banks is classified under stage 1 as per IFRS 9.

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

The composition of the loans and advances and Islamic financing portfolio is as follows:

At Amortised Cost	**2022**	2021
Loans and advances	**AED'000**	AED'000
Overdrafts	**7,217,838**	8,653,532
Loans	**54,547,369**	54,393,536
Advances against letters of credit and trust receipts	**2,593,738**	2,188,459
Bills discounted	**3,454,296**	2,366,805
Gross loans and advances	**67,813,241**	67,602,332
Islamic financing		
Murabaha and Tawaruq	**4,793,285**	4,941,516
Ijara	**6,299,758**	7,565,613
Others	**713,454**	355,742
Gross Islamic financing	**11,806,497**	12,862,871
Gross loans and advances and Islamic financing	**79,619,738**	80,465,203
Less: Expected credit losses	**(5,011,917)**	(4,023,818)
Net loans and advances and Islamic financing	**74,607,821**	76,441,385

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Gross exposure at 1 January 2022	**67,128,686**	**7,234,414**	**6,102,103**	**80,465,203**
Net transfers between stages	**(2,200,170)**	**1,412,228**	**787,942**	**-**
Net additions / (repayments)	**1,270,262**	**(1,304,559)**	**(565,641)**	**(599,938)**
Amounts written off	**-**	**-**	**(245,527)**	**(245,527)**
At 31 December 2022	**66,198,778**	**7,342,083**	**6,078,877**	**79,619,738**
ECL allowance at 1 January 2022	**595,324**	**662,964**	**2,765,530**	**4,023,818**
Net transfers between stages	**(33,811)**	**(20,703)**	**54,514**	**-**
Net (reversals) / impairment charge	**(54,837)**	**98,217**	**1,298,140**	**1,341,520**
Recoveries	**-**	**-**	**(107,894)**	**(107,894)**
Amounts written off	**-**	**-**	**(245,527)**	**(245,527)**
At 31 December 2022	**506,676**	**740,478**	**3,764,763**	**5,011,917**

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Gross exposure at 1 January 2021	55,506,008	8,377,726	5,165,565	69,049,299
Net transfers between stages	(1,971,256)	336,119	1,635,137	-
Net additions / (repayments)	13,593,934	(1,479,431)	273,824	12,388,327
Amounts written off	-	-	(972,423)	(972,423)
At 31 December 2021	67,128,686	7,234,414	6,102,103	80,465,203
ECL allowance at 1 January 2021	652,976	517,923	2,589,828	3,760,727
Net transfers between stages	(2,974)	(94,120)	97,094	-
Net (reversals) / impairment charge	(54,678)	239,161	1,131,970	1,316,453
Recoveries	-	-	(80,939)	(80,939)
Amounts written off	-	-	(972,423)	(972,423)
At 31 December 2021	595,324	662,964	2,765,530	4,023,818

The net impairment charge are inclusive of interest in suspense.

The economic sector composition of the loans and advances and Islamic financing is set out in note 35 (b).

The Group has hedged the fair value of certain fixed rate loans and advances and Islamic financing. The carrying value of these loans and advances and Islamic financing is AED 30.8 million (2021: AED 45.6 million). Net negative fair value of the hedged component is AED 0.4 million (2021: net positive fair value of AED 1.9 million).

10. INVESTMENT SECURITIES, NET

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
31 December 2022				
Held at fair value through profit or loss				
Unquoted equity instruments	**1,837**	**-**	**245,333**	**247,170**
Held at fair value through other comprehensive income				
Quoted equity instruments	**60,072**	**-**	**-**	**60,072**
Unquoted equity instruments and fund	**117,753**	**-**	**16,944**	**134,697**
Fixed rate securities				
- Government	**1,907,173**	**582,880**	**816,680**	**3,306,733**
- Others	**728,610**	**297,066**	**1,736,488**	**2,762,164**
Floating rate non-government securities	**146,185**	**-**	**35,158**	**181,343**
Held at amortised cost				
Fixed rate securities				
- Government	**1,599,505**	**124,363**	**109,939**	**1,833,807**
- Others	**73,099**	**-**	**165,026**	**238,125**
Floating rate non-government securities	**-**	**45,998**	**-**	**45,998**
	4,634,234	**1,050,307**	**3,125,568**	**8,810,109**
Less: Expected credit losses on amortised cost securities				**(17)**
				8,810,092
31 December 2021				
Held at fair value through profit or loss				
Unquoted equity instruments	1,837	-	255,073	256,910
Held at fair value through other comprehensive income				
Quoted equity instruments	54,107	-	-	54,107
Unquoted equity instruments and fund	-	-	24,479	24,479
Fixed rate securities				
- Government	1,803,851	747,680	641,693	3,193,224
- Others	909,430	182,656	1,384,243	2,476,329
Floating rate non-government securities	166,183	-	58,769	224,952
Held at amortised cost				
Fixed rate securities				
- Government	2,761,320	-	-	2,761,320
- Others	-	-	-	-
Floating rate non-government securities	-	-	-	-
	5,696,728	930,336	2,364,257	8,991,321
Less: Expected credit losses on amortised cost securities				-
				8,991,321

10. INVESTMENT SECURITIES, NET (CONTINUED)

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 3.3 billion (31 December 2021: AED 2.6 billion), pledged under repurchase agreements with banks.

Net gains from sale of debt investments at fair value through other comprehensive income amounted to AED 0.4 million (2021: AED 53.0 million).

10.1 Rating of fixed and floating rate securities

The below table shows the rating of fixed and floating rate securities:

	2022	2021
	AED'000	AED'000
Rated Aaa to Aa3	**2,966,742**	2,641,702
Rated A1 to A3	**2,610,813**	2,345,693
Rated Baa1 to Baa3	**649,789**	362,640
Rated below Baa3 or Unrated - Government	**2,038,643**	2,885,273
Rated below Baa3 - others	**102,183**	420,517
	8,368,170	8,655,825

The above represents approved ratings from External Credit Assessment Institutions (ECAIs) as per BASEL III guidelines.

11. INVESTMENT IN AN ASSOCIATE

Equity accounting was applied using management information available at the date of reporting.

The following is the aggregated financial information of the associate:

	2022	2021
	AED'000	AED'000
At 1 January	**95,051**	88,514
Share of profit of associate	**8,583**	11,529
Dividends received	**(7,984)**	(3,992)
Share of Directors' remuneration of associate	**(909)**	(604)
Other equity adjustments	**(1,825)**	(396)
At 31 December	**92,916**	95,051

	2022	2021
	AED'000	AED'000
Assets	**1,531,428**	1,541,189
Liabilities	**1,007,959**	1,005,690
Net assets	**523,469**	535,499
Revenue	**62,773**	84,898

12. INVESTMENT PROPERTIES, NET

The movement in investment properties during the year is as follows:

	2022	2021
Cost	**AED'000**	AED'000
At 1 January	**356,579**	347,899
Additions	**-**	-
Transfers (to) / from property and equipment	**(77)**	8,680
Disposals	**-**	-
At 31 December	**356,502**	356,579
Depreciation		
At 1 January	**165,173**	156,430
Charge for the year	**5,638**	4,051
Transfers (to) / from property and equipment	**(77)**	4,692
Disposals	**-**	-
At 31 December	**170,734**	165,173
Net book value at 31 December	**185,768**	191,406

Investment properties comprises buildings. Rental income amounting to AED 15.0 million (2021 AED 14.2 million) from investment properties leased under operating lease is recorded in other income.

The fair value of the investment property amounted to AED 256.2 million. All of the investment properties have been categorised as Level 3 fair value measurements.

During the year ended 31 December 2022 the Group has carried out external valuations of all investment properties. The valuations are carried out by professional valuers who hold recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuations were based on income (investment) and market based method of valuation. To value the investment properties, the passing rental income and estimated market rental income are used. Any significant movement in the assumptions used for the fair valuation of investment properties such as yield, rental growth, vacancy rate etc. is expected to result in significantly lower / higher fair value of these assets. As a result of the above impairment exercise, the Group has recognised an impairment of AED Nil (2021: AED Nil).

13. PROPERTY AND EQUIPMENT

Cost	**Freehold land and buildings AED'000**	**Leasehold improvements AED'000**	**Furniture, equipment & vehicles AED'000**	**Capital work in progress (CWIP) AED'000**	**Total AED'000**
At 1 January 2022	**287,129**	**42,652**	**508,005**	**43,173**	**880,959**
Additions during the year	**-**	**-**	**122**	**77,355**	**77,477**
Transfers	**77**	**3,042**	**53,913**	**(56,955)**	**77**
Disposals / write off	**-**	**(6,281)**	**(66,762)**	**-**	**(73,043)**
At 31 December 2022	**287,206**	**39,413**	**495,278**	**63,573**	**885,470**
Depreciation					
At 1 January 2022	**136,062**	**34,569**	**400,903**	**-**	**571,534**
Transfers	**77**	**-**	**-**	**-**	**77**
Charge for the year	**2,618**	**1,611**	**25,901**	**-**	**30,130**
On disposals	**-**	**(6,274)**	**(64,248)**	**-**	**(70,522)**
At 31 December 2022	**138,757**	**29,906**	**362,556**	**-**	**531,219**
Net book value at 31 December 2022	**148,449**	**9,507**	**132,722**	**63,573**	**354,251**

Cost	Freehold land and buildings AED'000	Leasehold improvements AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress (CWIP) AED'000	Total AED'000
At 1 January 2021	292,535	41,976	492,805	22,226	849,542
Additions during the year	158	297	1,670	51,367	53,492
Transfers	(5,564)	379	22,461	(25,956)	(8,680)
Disposals / write off	-	-	(8,931)	(4,464)	(13,395)
At 31 December 2021	287,129	42,652	508,005	43,173	880,959
Depreciation					
At 1 January 2021	138,336	33,157	388,024	-	559,517
Transfers	(4,692)	-	-	-	(4,692)
Charge for the year	2,418	1,412	21,764	-	25,594
On disposals	-	-	(8,885)	-	(8,885)
At 31 December 2021	136,062	34,569	400,903	-	571,534
Net book value at 31 December 2021	151,067	8,083	107,102	43,173	309,425

The Group assessed whether there is an indication that an asset may be impaired and concluded that there was no indication of impairment.

14. OTHER ASSETS, NET

	2022	2021
	AED'000	AED'000
Interest receivable	**516,006**	348,850
Accounts receivable and prepayments	**231,176**	475,698
Properties acquired in settlement of debt-held for sale, net	**2,155,312**	1,529,353
	2,902,494	**2,353,901**

Properties acquired in settlement of debt were acquired in order to extinguish a loan. During the year provision of AED 38.6 million (2021: AED 40.9 million) was charged on property acquired in settlement of debt.

15. DUE TO BANKS

	2022	2021
	AED'000	AED'000
Current and demand deposits	**289,037**	208,048
Term borrowings	**7,549,667**	5,912,166
	7,838,704	6,120,214

16. CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	2022	2021
Customer deposits	**AED'000**	AED'000
Current and demand accounts	**30,329,265**	27,692,171
Savings accounts	**4,019,908**	4,188,259
Time deposits	**35,044,252**	33,689,371
	69,393,425	65,569,801
Islamic customer deposits		
Current and demand accounts	**3,494,609**	4,881,439
Mudaraba savings accounts	**551,217**	588,262
Investment and Wakala deposits	**7,635,128**	11,682,167
	11,680,954	17,151,868
Total customer deposits and Islamic customer deposits	**81,074,379**	82,721,669

	2022	2021
By sector:	**AED'000**	AED'000
Government	**14,605,181**	17,582,539
Corporate	**35,009,222**	37,435,457
Personal	**31,459,976**	27,703,673
	81,074,379	82,721,669

17. NOTES AND MEDIUM TERM BORROWINGS

		31 December 2021 AED'000	**Cash flow Changes AED'000**	**Non cash flow Changes AED'000**	**31 December 2022 AED'000**
Syndicated loan	17.1	621,852	**-**	**971**	**622,823**
Repurchase agreements - I	17.2	551,442	**(551,442)**	**-**	**-**
Repurchase agreements - II	17.2	-	**-**	**-**	**-**
Repurchase agreements - III	17.2	1,135,721	**-**	**-**	**1,135,721**
Medium term notes	17.3	275,475	**-**	**-**	**275,475**
Total		2,584,490	**(551,442)**	**971**	**2,034,019**

		31 December 2020 AED'000	Cash flow Changes AED'000	Non cash flow Changes AED'000	31 December 2021 AED'000
Syndicated loan	17.1	620,818	-	1,034	621,852
Repurchase agreements - I	17.2	551,442	-	-	551,442
Repurchase agreements - II	17.2	591,799	(591,799)	-	-
Repurchase agreements - III	17.2	-	1,135,721	-	1,135,721
Medium term notes	17.3	-	275,475	-	275,475
Total		1,764,059	819,397	1,034	2,584,490

17.1 Syndicated loan

In August 2019, the Group entered into a club deal of USD 170 million (AED 624.4 million) priced at 6 month Libor plus 135 bps. for a term of 5 years with an option to roll over on a semi-annual basis maturing in August 2024.

17.2 Repurchase agreements

The Group entered into multiple repo transactions to obtain financing against the sale of certain debt securities. The repo transactions details are as follows:

	Purchase date	**Maturity date**	**Amount in USD (millions)**	**Amount in AED (millions)**
Repurchase agreements - I	July 2012	July 2022	150.1	551.4
Repurchase agreements - II	June 2016	July 2021	161.1	591.8
Repurchase agreements - III	June 2021	June 2026	309.2	1,135.7

As at 31 December 2022 the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 1,265.1 million (USD 344.4 million) (31 December 2021: AED 2,095.9 million (USD 570.6 million)).

17.3 Medium term notes

In July 2021, CBD issued USD 50 million (AED 183.7 million) of conventional notes. These notes were priced at 3 month Libor plus 130 bps. floating rate and will mature on 8 July 2026.

In September 2021, CBD issued USD 25 million (AED 91.8 million) of conventional notes. These notes were priced at 3 month Libor plus 130 bps. floating rate and will mature on 15 September 2026.

18. OTHER LIABILITIES

	2022	2021
	AED'000	AED'000
Accrued interest payable	**498,602**	223,012
Employees' terminal benefits	**53,885**	54,190
Accounts payable	**437,305**	425,419
Accrued expenses	**182,260**	136,865
Manager cheques	**530,398**	441,290
Unearned fee income and deferred credits	**48,578**	49,493
	1,751,028	1,330,269

Based on the actuarial computation of employees' terminal benefits, the obligation under the defined benefit scheme is AED 53.9 million (2021: AED 54.2 million). The actuarial loss for the year ended 31 December 2022 amounting to AED 3.9 million loss (2021: AED 2.4 million loss) has been recognized directly in other comprehensive income under Actuarial loss on retirement benefits obligations.

The table below shows the movement in the employees' terminal benefits:

	2022	2021
	AED'000	AED'000
Balances as at 1 January	**54,190**	49,941
Expense during the year	**6,461**	10,397
Actuarial loss in other comprehensive income	**3,889**	2,367
Benefits paid and adjustments during the year	**(10,655)**	(8,515)
Balances as at 31 December	**53,885**	54,190

19. EQUITY

19.1 Share capital

The fully paid up and authorised ordinary share capital as at 31 December 2022 comprised 2,802,733,968 ordinary shares of AED 1 each (31 December 2021: 2,802,733,968 shares of AED 1 each). There was no movement in authorised ordinary share capital during the year.

19.2 Tier 1 capital notes

The Group had issued USD 600 million (AED 2,203.8 million) of Tier 1 Capital Securities at a price of 6% per annum on 21 October 2020. The notes are non-callable for 6 years and are listed on Euronext Dublin and Nasdaq Dubai.

19. EQUITY (CONTINUTED)

19.2 Tier 1 capital notes (continued)

The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default.

The accounting treatment for the securities is governed by IAS 32 Financial Instruments Presentation. As per IAS 32, the instrument qualifies as an equity instrument and the interest paid on the securities is accounted for as a deduction from retained earnings. The accounting treatment for issuing securities transaction costs are accounted for as a deduction from equity. These are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

19.3 Legal and statutory reserve

The Group's Article of Association in compliance with the Decretal Federal Law No. (14) of 2018 require a minimum of 10% of annual net profit to be transferred to non-distributable legal and statutory reserve, until such time as this reserve equals 50% of share capital. During the year AED nil transferred to legal and statutory reserve (2021: AED 80 thousand) to meet the minimum regulatory requirement. The legal and statutory reserve is not available for distribution except under the circumstances stipulated by the relevant laws.

19.4 General reserve

The Group's Articles of Association adopted by the General Assembly of Shareholders in its meeting held on 26 June 2016 deleted the requirement for the general reserve. Therefore, there is no requirement to transfer 10% of the annual net profit to the general reserve. The previous Group's Articles of Association, required a minimum of 10% of the annual net profit to be transferred to general reserve until such time as this reserve equals 50% of share capital. The disposition of the general reserve shall be in accordance with a resolution made by the Board of Directors.

19.5 Capital reserve

This reserve represents the inaugural value of land at the CBD head office. The reserve is available for distribution to the shareholders.

19.6 Fair value reserve

This represents the net change in the fair values of OCI investments, derivative instruments designated as cash flow hedge instruments held by the Group at reporting date and actuarial changes on retirement benefits obligations. This reserve is not available for distribution to the shareholders until realised.

19.7 Proposed distribution

i) Proposed cash dividend

As of the date of approving the consolidated financial statements, the Board of Directors' proposed a cash dividend of 26.05% of the share capital (2021: 25.88%) and the below proposed bonus share issuance.

ii) Proposed bonus share issue

A bonus issue of 6.51% of the share capital is proposed (2021: Nil)

20. INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2022	2021
	AED'000	AED'000
Interest income		
Loans and advances	**2,959,562**	2,198,003
Negotiable certificates of deposit and other deposits with the Central Bank	**168,483**	9,026
Due from banks	**14,031**	987
Investment securities		
- Debt securities at FVOCI	**133,475**	128,618
- Debt securities at amortized cost	**35,893**	5,558
	3,311,444	2,342,192
Income from Islamic financing		
Murabaha and Tawaruq	**162,537**	124,593
Ijara	**309,075**	222,362
	471,612	346,955
Total interest income and income from Islamic financing	**3,783,056**	2,689,147

Interest income is recognised using the effective interest rate.

21. INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS

	2022	2021
Interest expense	**AED'000**	AED'000
Due to banks	**80,995**	22,219
Customer deposits	**680,422**	362,381
Notes and medium term borrowings	**148,540**	71,686
	909,957	456,286
Distribution to Islamic depositors		
Islamic customer deposits	**197,226**	154,972
	197,226	154,972
Total interest expense and distribution to Islamic depositors	**1,107,183**	611,258

Distribution to Islamic depositors represents the share of income allocated to Islamic depositors of the Group. The allocation and distribution is approved by the Group's Internal Sharia Supervision Committee (ISSC).

22. NET FEES AND COMMISSION INCOME

	2022	2021
	AED'000	AED'000
Lending activities	**299,312**	273,928
Trade finance activities	**206,373**	187,415
Account operating activities	**309,984**	297,577
Cards income and brokerage fees	**273,488**	249,292
	1,089,157	1,008,212
Cards, commissions and brokerage expenses	**(333,539)**	(265,790)
	755,618	742,422

23. NET GAINS FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
	AED'000	AED'000
Net realised gains on sale of investments at fair value through profit or loss	**1,249**	3,452
Unrealised gains of investments at fair value through profit or loss	**-**	-
	1,249	3,452

24. OTHER INCOME

Other income includes rental income from Investment properties and properties acquired in settlement of debt of AED 48.1 million (2021: AED 41.7 million).

25. STAFF AND OTHER EXPENSES

In 2022, staff expenses were AED 588.0 million (2021: AED 557.6 million) and other expenses of AED 366.34 million (2021: AED 271.6 million), corporate social responsibility (CSR) related expenses of AED 3.2 million (2021: AED 2.9 million) and directors' sitting fees for attending committee meetings during the year ended 31 December 2022 of AED 3.3 million (2021: AED 3.3 million).

26. LEASE COMMITMENTS

Group as lessee

Staff and other expenses include expenses related to the leases of the bank amounting to AED 10.2 million (2021: AED 10.6 million). Future minimum lease payments under non-cancellable leases as at 31 December are, as follows:

	2022	2021
	AED'000	AED'000
Less than 1 year	**4,400**	7,148
From 1 year to 5 years	**3,380**	-
	7,780	7,148

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit (further adjusted for interest expense and transaction cost on Tier 1 capital notes) divided by the weighted average number of ordinary shares outstanding 2,802,733,968 (31 December 2021: 2,802,733,968).

	2022	2021
	AED'000	AED'000
Net profit for the year	**1,825,019**	1,450,522
Deduct : Interest on Tier 1 capital notes	**(132,228)**	(132,228)
Deduct : Tier 1 capital notes transaction cost	**-**	(1,543)
Adjusted net profit for the year	**1,692,791**	1,316,751
Weighted average number of ordinary shares ('000)	**2,802,734**	2,802,734
Adjusted earnings per share (AED)	**0.60**	0.47

Diluted earnings per share as of 31 December 2022 and 31 December 2021 are equivalent to basic earnings per share as no new shares have been issued that would impact earnings per share when executed.

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in these Group consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2022	2021
	AED'000	AED'000
Cash on hand	**830,692**	796,104
Statutory reserves and other deposits	**13,529,737**	13,871,485
Negotiable certificates of deposit with the UAE Central Bank	**1,400,000**	-
Due from banks	**3,767,680**	3,156,655
	19,528,109	17,824,244
Less: UAE Central Bank statutory reserves requirement	**(3,229,737)**	(3,016,348)
Less: Negotiable certificates of deposit with the UAE Central Bank with original maturity more than three months	**(1,050,000)**	-
Less: Due from banks with original maturity of more than three months	**(486,308)**	(735,059)
Less: Due to UAE Central Bank	**(99,885)**	-
Less: Due to banks with original maturity of less than three months	**(1,709,871)**	(1,052,398)
	12,952,308	13,020,439

29. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit and guarantees which are designed to meet the requirements of the Group's customers toward third parties. Undrawn commitments represent the Group's commitments towards approved un-drawn credit facilities. The amount of contingent liabilities reflected below represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2022	2021
Contingent liabilities:	**AED'000**	AED'000
Letters of credit	**3,334,275**	2,961,640
Letters of guarantee	**13,320,233**	11,098,639
	16,654,508	14,060,279
Undrawn commitments to extend credit	**23,263,977**	17,714,851
Capital expenditure commitments	**119,081**	44,636
Commitments for future private equity investments	**111,508**	109,860
Total contingent liabilities and commitments	**40,149,074**	31,929,626

In the normal course of business, certain litigations were filed by or against the Bank. However based on management assessment, none of the litigations have a material impact on Bank's financial results.

The Bank seeks to comply with all applicable laws by which it is governed and is not aware of any material fines or penalties that warrant disclosure in the consolidated financial statements.

30. FIDUCIARY ASSETS

Assets held under fiduciary capacity on behalf of clients amounted to AED 7,555.9 million (2021: AED 8,151.3 million).

31. DERIVATIVES

The following table shows the positive and negative fair values of derivative financial instruments at the reporting date, together with the notional amounts, analyzed by terms to maturity. The notional amount is the value of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and therefore, are neither indicative of the Group's exposure to credit risk nor market risk. Credit risk on derivatives is limited to its positive fair value if any, the positive MTM and also the bank's own credit risk associated with it's derivative liability position.

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000	Over Five years AED'000
31 December 2022							
Cash flow hedge instruments							
Currency Swaps	-	-	-	-	-	-	-
Fair value hedge instruments							
Interest Rate Swaps	14,411	5,331	2,777,096	-	2,582,721	194,375	-
Forward foreign exchange contracts and other derivatives							
Currency swaps	538	1,618	343,279	-	-	343,279	-
Interest rate swaps	809,353	728,648	30,991,247	914,218	4,014,089	11,561,269	14,501,671
Foreign exchange deals	88,507	77,849	6,017,406	3,090,069	2,875,574	51,763	-
Currency options	101,598	101,598	7,691,615	8,540	2,587,996	5,095,079	-
Interest rate options	9,602	8,867	1,502,958	-	-	1,195,025	307,933
	1,024,009	923,911	49,323,601	4,012,827	12,060,380	18,440,790	14,809,604

31. DERIVATIVES (continued)

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000	Over Five years AED'000
31 December 2021							
Cash flow hedge instruments							
Currency Swaps	601	2,242	62,384	62,384	-	-	-
Fair value hedge instruments							
Interest Rate Swaps	2,164	3,959	157,064	-	-	120,334	36,730
Forward foreign exchange contracts and other derivatives							
Interest rate swaps	521,441	421,758	26,247,057	387,607	1,179,034	8,526,769	16,153,647
Foreign exchange deals	78,624	56,114	9,049,380	4,545,218	4,372,559	131,603	-
Currency options	50,144	50,131	5,187,294	83,000	787,038	4,317,256	-
Interest rate options	13,735	13,326	1,568,924	-	233,651	1,008,823	326,450
	666,709	547,530	42,272,103	5,078,209	6,572,282	14,104,785	16,516,827

32. SEGMENTAL REPORTING

The Group uses business segments for presenting its segment information, which is based on the Group's management and internal reporting structure that are regularly reviewed by the Executive Committee in order to allocate resources to the segment and to assess its performance. During the current year, there have been no material changes to the organization structure and the portfolio allocation to the business segments. The prior comparative year figures have been reclassified to conform to the current year presentation.

The business segments pay to and receive interest from the Treasury to reflect the allocation of funding costs. Interest is charged or credited to business segments and branches to match funding at transfer pricing rates which approximate the cost of funds.

Business segments

Institutional banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to institutional clients (including Government related entities).
Corporate banking	Includes loans, working capital financing, trade finance and deposits products to corporate (mid-sized and emerging) clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to small business and retail clients. It also includes the enterprise wide liabilities unit serving non-borrowing wholesale and small business clients.
Trading & Other	Undertakes balance sheet management deals and manages the Group's proprietary investment portfolio. It also has derivatives for trading and risk management purposes.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

	Institutional banking	Corporate banking	Personal banking	Trading & Other	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2022					
Assets	**29,403,174**	**42,420,938**	**14,633,217**	**29,617,002**	**116,074,331**
Liabilities	**42,733,354**	**15,270,985**	**33,278,579**	**10,909,167**	**102,192,085**
31 December 2021					
Assets	32,793,065	41,911,521	12,125,274	27,382,736	114,212,596
Liabilities	44,573,786	16,733,692	30,025,272	9,312,632	100,645,382

32. SEGMENTAL REPORTING (CONTINUTED)

	Institutional banking AED'000	Corporate banking AED'000	Personal banking AED'000	Trading & Other AED'000	Total AED'000
31 December 2022					
Net interest income and net income from Islamic financing	**567,607**	**982,876**	**767,601**	**357,789**	**2,675,873**
Non-interest & other income	**348,052**	**309,565**	**417,523**	**61,209**	**1,136,349**
Total operating income	**915,659**	**1,292,441**	**1,185,124**	**418,998**	**3,812,222**
Expenses *(note a)*	**160,428**	**152,926**	**471,474**	**211,777**	**996,605**
Net provisions *(note b)*	**285,092**	**615,311**	**1,916**	**88,279**	**990,598**
	445,520	**768,237**	**473,390**	**300,056**	**1,987,203**
Net profit for the year	**470,139**	**524,204**	**711,734**	**118,942**	**1,825,019**
31 December 2021					
Net interest income and net income from Islamic financing	619,073	1,090,358	574,536	(206,078)	2,077,889
Non-interest & other income	306,135	266,387	409,110	123,477	1,105,109
Total operating income	925,208	1,356,745	983,646	(82,601)	3,182,998
Expenses *(note a)*	163,984	144,687	459,995	96,392	865,058
Net provisions *(note b)*	259,219	538,719	28,953	40,527	867,418
	423,203	683,406	488,948	136,919	1,732,476
Net profit / (loss) for the year	502,005	673,339	494,698	(219,520)	1,450,522

a. This includes staff and other expenses and depreciation and amortization.
b. This includes expected credit losses on due from banks, loans and advances and Islamic financing, investment securities, and other assets, net of recoveries.

The following is an analysis of the total operating income of each segment between income from external parties and inter-segment:

	External parties		Inter-segment	
	2022	2021	**2022**	2021
	AED’000	AED’000	**AED’000**	AED’000
Institutional banking	**749,906**	706,757	**165,753**	218,451
Corporate banking	**2,035,492**	1,534,358	**(743,051)**	(177,613)
Personal banking	**842,783**	765,608	**342,341**	218,038
Trading & Other	**184,041**	176,275	**234,957**	(258,876)
Total operating income	**3,812,222**	3,182,998	**-**	-

33. RELATED PARTY TRANSACTIONS AND BALANCES

As at 31 December 2022 and 31 December 2021, the Investment Corporation of Dubai ("ICD") owns 20% share capital of the Group. ICD is a wholly owned entity by the Government of Dubai (the "Government").

The Group in the ordinary course of business enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board of Directors.

	Directors and key management personnel		**Government related parties**		**Other related parties**	
	2022	2021	**2022**	2021	**2022**	2021
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Due from banks	**-**	-	**73,460**	99,685	**-**	-
Loans and advances and Islamic financing	**128,849**	150,208	**1,473,374**	1,482,351	**2,112,026**	2,427,352
Investment securities, net	**-**	-	**441,243**	565,379	**-**	-
Bankers acceptances	**-**	-	**94,765**	-	**4,909**	5,721
Letters of credit	**-**	-	**-**	-	**149,107**	4,319
Letters of guarantee	**-**	-	**433,103**	79,778	**119,765**	24,576
Undrawn commitments to extend credit	**37,168**	11,001	**539,198**	79,882	**417,566**	354,037
Due to banks	**-**	-	**59,576**	459,125	**-**	-
Customer deposits and Islamic customer deposits	**63,382**	114,443	**4,116,685**	6,000,409	**249,922**	491,068
Interest income and commission income	**6,513**	6,458	**66,169**	39,924	**126,553**	79,041
Interest expense	**363**	216	**88,569**	44,405	**5,937**	3,173
Dividend from an associate	**-**	-	**-**	-	**7,984**	3,992

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Other related parties represents major shareholders and parties related to directors, key management personnel.

Sitting fees paid to directors for attending committee meetings during the year ended 31 December 2022 amounted to AED 3.3 million (2021: AED 3.3 million).

	2022	2021
Key management compensation	**AED'000**	AED'000
Salaries	**20,363**	20,392
Post-employment benefits	**963**	771
Other benefits	**17,844**	40,841

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

34.1 Risk Governance

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

In order to effectively discharge this responsibility the Board is assisted by various Board Committees, namely Board Executive Committee (BEC), Board Risk and Compliance Committee (BRCC), Board Audit Committee (BAC) and Remuneration, Nomination and Governance Committee (REMCO).

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

34.2 Control Environment

a) Group Risk

Group Risk Department comprises Enterprise Risk Management, Market Risk, Operational Risk and Fraud Risk Management units. Its responsibilities include the following:

- Developing a strategy, policy and an overarching risk management framework to enable alignment of risk policies and processes with the overall business model of the Bank;
- Extending support and conducting assurance review to the 1st line of defense to ensure implementation of the Risk Management Framework and the underlying policies;
- 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;
- Formulating and managing the Bank's Model Risk Approach, ensuring appropriate governance controls are in place and in line with internal and regulatory expectations;
- Planning the Bank's ICAAP and Capital Management analysis, including Pillar II capital assessment models and Stress Testing;
- Framing and introducing necessary controls to assess and monitor the Bank's exposure to Market Risk, in line with the adopted and approved policy framework; and
- Providing independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

b) Internal Audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent assurance on the

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

34.2 Control Environment (continued)

b. Internal Audit (continued)

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.

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.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

34.2 Control Environment (continued)

d) Compliance

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

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

The mission and role of compliance department is to:

- Ensuring compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- Ensuring senior management is fully informed of significant compliance issues and plans for resolution;
- Contributing to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- Aligning annual compliance plans with business strategies and goals; and
- Meet regulatory requirements including 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 to confidentially report concerns about any potential violations, enabling the investigation and follow up of such concerns independently and discreetly through the whistle blowing policy. Such arrangements are supervised by the BRCC and in coordination with the executive 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 susceptibility of Group's assets and processes to fraud risk with a view to reducing it and to raise the level of fraud awareness amongst employees, customers and other stakeholders.

34.3 Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all regulations and guidelines issued by the lead regulator Central Bank of the UAE (CBUAE), International Financial Reporting Standards (IFRS), Securities and Commodities Authority (SCA) and Dubai Financial Market (DFM).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUTED)

34.3 Disclosure policy (continued)

a) Materiality thresholds

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement, and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down qualitative materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

b) Control framework

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of financial disclosures.

c) Frequency and medium of disclosure

Interim financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel III Pillar 3, relevant laws of the U.A.E, SCA requirement and other guidelines from CBUAE is made on annual basis. Disclosures of material non-public financial information are made as follows:

- Uploading quarterly reviewed and annual audited consolidated financial statements to DFM, SCA, Nasdaq Dubai and the Bank's websites;
- Management discussion and analysis in Arabic and English newspapers in a manner that ensures wide dissemination;
- Publication of the annual report which includes audited consolidated financial statements, list of names of members of the Board of Directors, senior executives and names of wholly or partially owned subsidiaries; and
- Investor's pack is presented on Bank's website on a quarterly and annual basis.
- Uploading quarterly reviewed Basel III, Pillar 3 disclosures to the Bank's website.

35. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

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

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

35. FINANCIAL RISK MANAGEMENT (continued)

a) Introduction and overview (continued)

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Risk and Compliance Committee (BRCC) is responsible for overseeing the overall management of risk, through the Group Risk Management framework. The framework comprises of risk appetite definition, risk management identification, assessment, and techniques. The Group's BRCC is assisted in these functions by the Risk Management and Compliance Committee (RMCC).

The RMCC is responsible for monitoring compliance with the Group's Risk Management policies and procedures, including the ongoing review of the adequacy of the Risk Management framework. The RMCC also provides risk performance updates to the BRCC and recommends key risk policies for approval.

This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

b) Credit risk

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.

i. *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.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

ii. 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.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

ii. *Internal credit risk ratings (continued)*

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 Bank expects to receive. The Bank estimates LGD based on history of recovery rates and considers the valuation of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.

iii. *Measurement of ECL*

As explained in note 3.1.1 (e), the Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk. However, for financial instruments such as credit cards and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance to terminate a loan commitment or guarantee.

iv. *Restructured and renegotiated loans*

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

v. *Exposure to credit risk*

The Group measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and expected credit allowances, if any.

31 December 2022	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Due from banks				
Performing	**3,767,680**	**-**	**-**	**3,767,680**
Expected credit losses allowance	**(1,173)**	**-**	**-**	**(1,173)**
Net carrying amount	**3,766,507**	**-**	**-**	**3,766,507**

Loans and advances	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Performing	**66,198,778**	**7,342,083**	**-**	**73,540,861**
Non-performing	**-**	**-**	**6,078,877**	**6,078,877**
Expected credit losses allowance	**(506,676)**	**(740,478)**	**(3,764,763)**	**(5,011,917)**
Net carrying amount	**65,692,102**	**6,601,605**	**2,314,114**	**74,607,821**

31 December 2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Due from banks				
Performing	3,156,655	-	-	3,156,655
Expected credit losses allowance	(2,056)	-	-	(2,056)
Net carrying amount	3,154,599	-	-	3,154,599

Loans and advances	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing	67,128,686	7,234,414	-	74,363,100
Non-performing	-	-	6,102,103	6,102,103
Expected credit losses allowance	(595,324)	(662,964)	(2,765,530)	(4,023,818)
Net carrying amount	66,533,362	6,571,450	3,336,573	76,441,385

The Group's Investment securities were classified under stage 1 at the reporting date (2021: classified under stage 1).

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

vi. *Impairment reserve under the Central Bank of UAE (CBUAE) guidance*

The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2022	2021
Allowances for impairment losses: General	**AED'000**	AED'000
General provisions under Circular 28/2010 of CBUAE	**1,208,867**	1,210,773
Less: Stage 1 and Stage 2 provisions under IFRS 9	**1,247,154**	1,258,288
General provision transferred to the impairment reserve*	**-**	-
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**3,407,387**	2,506,119
Less: Stage 3 provisions under IFRS 9	**3,764,763**	2,765,530
Specific provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**-**	-

*In the case where provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

vii. *Allowances for impairment*

As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk.

Assets carried at fair value through profit or loss is not subject to ECL, as the measure of fair value reflects the credit quality of each asset.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

vii. *Allowances for impairment (continued)*

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 2022	**Impaired loans AED'000**	**Collateral AED'000**	**Specific provision and interest in suspense AED'000**
Manufacturing	**69,639**	**37,012**	**46,507**
Construction	**1,443,931**	**528,585**	**1,008,167**
Real estate	**1,511,585**	**1,084,330**	**632,165**
Trade	**351,931**	**33,966**	**320,487**
Transportation and storage	**5,901**	**1,117**	**5,986**
Services	**918,110**	**424,093**	**414,560**
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**	**16,093**
Total carrying amount	**6,078,877**	**2,738,362**	**3,764,763**

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

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

The gross carrying value of unfunded exposures pertaining to impaired loans amounted to AED 346.8 million (2021: AED 281.3 million).

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

viii. *Write - off policy*

The Group writes off a loan / investment in debt security (and any related expected credit allowances) when the Board Executive Committee (BEC) determines that the loan / security is uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product-specific past due status.

ix. *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 2022 or 2021.

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

	2022	2021
	AED'000	AED'000
Pledged deposits	**2,024,670**	3,320,629
Properties	**38,009,754**	38,647,650
Mortgages	**1,207,668**	241,353
Pledge of shares	**2,491,527**	2,789,227
Bank guarantees	**212,796**	267,668
Gold	**185,880**	193,587
Credit Insurance	**127,415**	94,849
Others	**-**	28,773
Total collaterals	**44,259,710**	45,583,736

The above represents collateral value restricted to the lower of loan balance or collateral value.

FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

x. 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 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

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

x. Concentration (continued)

Concentration of credit risk by sector for 2021:

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

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

x. Concentration (continued)

Concentration of credit risk by geographic location for 2022:

	Loans and advances and Islamic financing AED'000	**Due from banks AED'000**	**Debt securities AED'000**	**Equity securities and fund of funds AED'000**	**Cash, balances with Central bank and other assets AED'000**	**Total funded exposures AED'000**	**Undrawn commitments AED'000**	**Acceptances and contingent liabilities AED'000**
UAE	**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 geographic location for 2021:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
UAE	76,056,688	197,982	5,640,784	55,944	18,408,280	100,359,678	17,158,691	17,435,768
GCC	1,347,190	208,745	930,336	-	-	2,486,271	16,584	791,190
Middle East	451,233	276,221	-	97,266	-	824,720	330,876	332,808
Europe	585,123	649,463	119,027	124	-	1,353,737	188,489	368,556
USA	4,964	1,470,018	668,271	24,479	-	2,167,732	-	423,581
Asia	969,080	128,148	1,150,634	-	-	2,247,862	19,593	1,970,431
Others	1,050,925	226,078	146,773	157,683	-	1,581,459	618	79,155
Total carrying amount	80,465,203	3,156,655	8,655,825	335,496	18,408,280	111,021,459	17,714,851	21,401,489

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

x. Concentration (continued)

Concentration of credit risk by currency for 2022:

	Loans and advances and Islamic financing AED'000	**Due from banks AED'000**	**Debt securities AED'000**	**Equity securities and fund of funds AED'000**	**Cash, balances with Central bank and other assets AED'000**	**Total funded exposures AED'000**	**Undrawn commitments AED'000**	**Acceptances and contingent liabilities AED'000**
AED	**62,845,809**	**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**

Concentration of credit risk by currency for 2021:

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

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

FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Delays in settlement are rare and are monitored through a framework of limits.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group Risk Management Department.

d) Liquidity risk

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

i. *Management of liquidity risk*

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

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

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

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

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

ii. *Exposure to liquidity risk*

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which is 87.09% as at 31 December 2022 (2021: 88.0%). In addition, the Group also uses the following ratios / information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR); and
- Basel III ratios (including LCR, NSFR, etc.) are also monitored internally and shared with the ALCO and Board Risk and Compliance Committee (BRCC).

The following table summarizes the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. These do not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the residual period at the report date to the contractual maturity date.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

ii. Exposure to liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2022 was as follows:

	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	**74,607,821**	**9,085,276**	**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	**116,074,331**	**27,978,827**	**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	**1,751,028**	**1,697,143**	**-**	**-**	**-**	**-**	**53,885**
Total liabilities	**102,192,085**	**56,141,306**	**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**

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

ii. Exposure to liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2021 was as follows:

	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	14,667,589	11,651,241	-	-	-	-	3,016,348
Due from banks, net	3,154,599	2,421,580	73,210	285,761	374,048	-	-
Loans and advances and Islamic financing, net	76,441,385	6,787,082	3,725,212	14,242,581	29,860,839	21,825,671	-
Investment securities, net	8,991,321	758,716	1,595,551	1,128,681	3,145,531	2,362,842	-
Investment in associate	95,051	-	-	-	-	-	95,051
Investment properties, net	191,406	-	-	-	-	-	191,406
Property and equipment	309,425	-	-	-	-	-	309,425
Bankers acceptances	7,341,210	164,178	1,370,649	5,405,800	304,582	96,001	-
Positive mark to market value of derivatives	666,709	666,709	-	-	-	-	-
Other assets, net	2,353,901	824,548	-	-	-	-	1,529,353
Total assets	114,212,596	23,274,054	6,764,622	21,062,823	33,685,000	24,284,514	5,141,583
Liabilities and equity							
Due to banks	6,120,214	1,529,255	974,164	661,669	2,955,126	-	-
Customer deposits and Islamic customer deposits	82,721,669	42,514,907	13,405,746	25,167,648	1,621,182	12,186	-
Notes and medium term borrowings	2,584,490	-	-	551,442	2,033,048	-	-
Due for trade acceptances	7,341,210	164,178	1,370,649	5,405,800	304,582	96,001	-
Negative mark to market value of derivatives	547,530	547,530	-	-	-	-	-
Other liabilities	1,330,269	1,284,028	-	-	-	-	46,241
Total liabilities	100,645,382	46,039,898	15,750,559	31,786,559	6,913,938	108,187	46,241
Gap representing equity	13,567,214	(22,765,844)	(8,985,937)	(10,723,736)	26,771,062	24,176,327	5,095,342

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

ii. Exposure to liquidity risk (continued)

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

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

The tables below show undiscounted contractual cash flows on the Group's financial liabilities:

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
Due to banks	**8,167,278**	**1,836,210**	**579,564**	**1,012,193**	**4,739,311**
Customer deposits and Islamic customer deposits	**81,663,802**	**50,447,283**	**11,167,828**	**19,045,284**	**1,003,407**
Notes and medium term borrowings	**2,124,807**	**-**	**-**	**-**	**2,124,807**
Due for trade acceptances	**8,570,044**	**1,254,037**	**1,674,927**	**5,634,675**	**6,405**
Other liabilities	**722,028**	**722,028**	**-**	**-**	**-**
Total liabilities	**101,247,959**	**54,259,558**	**13,422,319**	**25,692,152**	**7,873,930**
31 December 2021					
Due to banks	6,289,353	1,530,119	976,385	824,967	2,957,882
Customer deposits and Islamic customer deposits	82,959,416	42,517,039	13,429,088	24,951,178	2,062,111
Notes and medium term borrowings	2,721,885	-	-	559,732	2,162,153
Due for trade acceptances	7,341,210	164,178	1,370,649	5,405,800	400,583
Other liabilities	665,967	665,967	-	-	-
Total liabilities	99,977,831	44,877,303	15,776,122	31,741,677	7,582,729

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the Group's income and / or value of a financial instrument. The Group manages its market risk in order to achieve optimum returns while maintaining market risk exposures within set risk appetite.

i. *Management of market risk*

The Board of Directors sets the risk appetite pertaining to market risk which translates into risk limits which are closely monitored by Group Risk Management, reported daily to senior management and discussed monthly by the ALCO.

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested with the ALCO. The Group Risk Management department is responsible for the development of detailed risk management policies and for the day-to-day implementation, subject to review and approval by the ALCO.

ii. *Exposure to interest rate risk – non trading portfolio*

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing bands. The Group Risk Management Department monitors compliance with these limits on a daily basis and is responsible for reporting breaches if any, to senior management. ALCO review reports on a monthly basis.

In addition the Group also assesses the impact of defined movement in interest yield curves on its net interest income and regulatory capital. The following is the impact of interest rate movement on net interest income and regulatory capital:

	2022		2021	
	Net interest income		Net interest income	
	50 bps	**100 bps**	50 bps	100 bps
	AED'000	**AED'000**	AED'000	AED'000
Upward Parallel Shift	**75,417**	**137,914**	98,793	212,579
Downward Parallel Shift	**(72,602)**	**(150,620)**	(72,191)	(144,340)

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

A summary of the Group's interest rate sensitivity position based on contractual re-pricing arrangements or maturity dates, whichever dates are earlier is as follows:

31 December 2022	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 Year	Total
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	4,060,429	11,700,000	-	-	-	15,760,429
Due from banks, net	3,281,371	36,640	275,092	145,891	27,513	3,766,507
Loans and advances and Islamic financing	6,078,879	58,005,001	3,761,734	1,656,895	10,117,229	79,619,738
Expected credit losses	(5,011,917)	-	-	-	-	(5,011,917)
Investment securities, net	441,939	949,858	793,103	531,285	6,093,907	8,810,092
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	-	-	-	-	8,570,044
Positive mark to market value of derivatives	1,024,009	-	-	-	-	1,024,009
Other assets, net	2,902,494	-	-	-	-	2,902,494
Total assets	21,980,183	70,691,499	4,829,929	2,334,071	16,238,649	116,074,331
Liabilities						
Due to banks	-	7,216,905	309,594	312,205	-	7,838,704
Customer deposits and Islamic customer deposits	31,628,721	30,188,365	8,349,818	10,515,308	392,167	81,074,379
Notes and medium term borrowings	-	1,411,196	622,823	-	-	2,034,019
Due for trade acceptances	8,570,044	-	-	-	-	8,570,044
Negative mark to market value of derivatives	923,911	-	-	-	-	923,911
Other liabilities	1,751,028	-	-	-	-	1,751,028
Total liabilities	42,873,704	38,816,466	9,282,235	10,827,513	392,167	102,192,085
Interest rate sensitivity gap	(20,893,521)	31,875,033	(4,452,306)	(8,493,442)	15,846,482	13,882,246
Cumulative interest rate sensitivity gap	(20,893,521)	10,981,512	6,529,206	(1,964,236)	13,882,246	
Represented by equity						13,882,246

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

31 December 2021	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 Year	Total
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with Central Bank	3,867,589	10,800,000	-	-	-	14,667,589
Due from banks, net	2,421,525	348,274	-	384,800	-	3,154,599
Loans and advances and Islamic financing	6,102,104	58,725,071	6,608,037	2,053,351	6,976,640	80,465,203
Expected credit losses	(4,023,818)	-	-	-	-	(4,023,818)
Investment securities, net	335,496	2,576,523	952,409	66,092	5,060,801	8,991,321
Investment in associate	95,051	-	-	-	-	95,051
Investment properties, net	191,406	-	-	-	-	191,406
Property and equipment	309,425	-	-	-	-	309,425
Bankers acceptances	7,341,210	-	-	-	-	7,341,210
Positive mark to market value of derivatives	666,709	-	-	-	-	666,709
Other assets, net	2,353,901	-	-	-	-	2,353,901
Total assets	19,660,598	72,449,868	7,560,446	2,504,243	12,037,441	114,212,596
Liabilities						
Due to banks	-	3,894,334	318,917	342,752	1,564,211	6,120,214
Customer deposits and Islamic customer deposits	29,230,074	26,690,580	13,255,472	11,912,176	1,633,367	82,721,669
Notes and medium term borrowings	-	1,962,637	621,853	-	-	2,584,490
Due for trade acceptances	7,341,210	-	-	-	-	7,341,210
Negative mark to market value of derivatives	547,530	-	-	-	-	547,530
Other liabilities	1,330,269	-	-	-	-	1,330,269
Total liabilities	38,449,083	32,547,551	14,196,242	12,254,928	3,197,578	100,645,382
Interest rate sensitivity gap	(18,788,485)	39,902,317	(6,635,796)	(9,750,685)	8,839,863	13,567,214
Cumulative interest rate sensitivity gap	(18,788,485)	21,113,832	14,478,036	4,727,351	13,567,214	
Represented by equity						13,567,214

Overall interest rate risk positions are managed by the Treasury and ALM Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's activities. Interest rate risks are assumed by ALM from the businesses through fund transfer pricing process.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net spot	Forward	Net exposure	
	Position	Position	2022	2021
Currencies	AED'000	AED'000	AED'000	AED'000
US Dollar	**1,370,774**	**(1,678,841)**	**(308,067)**	431,867
GCC currencies	**(1,212,607)**	**1,223,795**	**11,188**	(3,743)
Great Britain Pound	**42**	**50**	**92**	1,821
Japanese Yen	**428**	**292**	**720**	(306)
Euro	**(504,618)**	**512,508**	**7,890**	2,375
Others	**22,106**	**(6,728)**	**15,378**	9,745

A summary of capital requirement for market risk under standardized approach of Basel III is set out below:

	2022	2021
	AED'000	AED'000
Foreign currency risk	**3,746**	2,828
Interest rate risk	**75,472**	73,592
	79,218	76,420

f) Equity risk

The Group has defined in its trading book policy the instruments which the Group is allowed to trade. A limited trading activity takes place in the equity market, monitored by Risk Management and in line with ALCO recommendations. Daily stop loss limits as well as portfolio notional limits are monitored daily and reported to senior management. In addition, the Group has classified an equity portfolio as FVOCI.

Analysis of equity portfolio:

	2022	2021
Publicly traded (quoted):	AED'000	AED'000
Equity (note 10)	**60,072**	54,107
Privately held (unquoted):		
Unquoted equity instruments and fund (note 10)	**381,867**	281,389
Total	**441,939**	335,496

Analysis of gains or (losses) on equity investments:

	2022	2021
	AED'000	AED'000
Realised gains on sale	**-**	1,186
Unrealised loss	**(8,196)**	(17,717)

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Equity risk (continued)

Analysis of capital requirement for equity investments under standardized approach of Basel III:

	2022	2021
	AED'000	AED'000
Quoted equity instruments and fund	**6,308**	5,681
Unquoted equity instruments and fund	**73,120**	43,137
Total	**79,428**	48,818

g) Operational risk

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

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

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

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

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

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

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Operational risk (continued)

The Group has in place an operational risk management system to collate operational risk information in an automated environment; this has enabled the bank to build operational risk databases to support migration to more complex approaches for computation of operational risk capital in the future.

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

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

35. CAPITAL MANAGEMENT

35.1 Regulatory capital

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

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

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

The Group’s policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders’ return is also 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.

36. CAPITAL MANAGEMENT (CONTINUED)

36.1 Regulatory capital (continued)

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 Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 (T2), depending on their characteristics

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- AT1 capital comprises eligible non-common equity capital instruments.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. The minimum capital adequacy requirements as set out by the Central Bank are as follows:

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

Additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced over and above the minimum CET1 requirement of 7%.

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

36. CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy

The table below summarizes the composition of regulatory capital and the ratios of the Group as per BASEL III guidelines and has complied with all of the externally imposed capital requirements to which it is subject. As per the Central Bank regulation for Basel III, the capital requirement as at 31 December 2022 is 13% inclusive of capital conservation buffer of 2.5%. The Bank has also applied the standards issued vide its circular dated 12 November 2020 by the CBUAE which includes additional Guidance on the topics of Credit Risk, Market Risk, Operational Risk, Equity Investment in Funds (EIF), Counter Party Credit Risk (CCR) and Credit Value Adjustment (CVA). The Standards support the implementation of the “Regulations re Capital Adequacy” (Circular 52/2017).

	2022	2021
Common equity tier 1 (CET1) capital	**AED’000**	AED’000
Share capital	**2,802,734**	2,802,734
Legal and statutory reserve	**1,401,447**	1,401,447
General reserve and other reserves	**1,366,663**	1,366,663
Retained earnings	**6,071,426**	5,113,083
Accumulated other comprehensive income	**(692,040)**	(72,764)
IFRS transitional arrangement	**90,292**	131,522
	11,040,522	10,742,685
Regulatory deductions and adjustments	**(123,565)**	(164,554)
Total CET1 capital	**10,916,957**	10,578,131
Additional tier 1 (AT1) Capital (note 19.2)	**2,203,800**	2,203,800
Tier 1 capital	**13,120,757**	12,781,931
Tier 2 capital		
Eligible general provision	**1,007,389**	1,008,978
Tier 2 capital	**1,007,389**	1,008,978
Total regulatory capital	**14,128,146**	13,790,909
Risk weighted assets (RWA)		
Credit risk	**80,591,138**	80,718,220
Market risk	**1,248,790**	731,729
Operational risk	**6,233,385**	5,746,505
Risk weighted assets	**88,073,313**	87,196,454
Tier 1 ratio	**14.90%**	14.66%
Tier 2 ratio	**1.14%**	1.16%
Capital adequacy ratio	**16.04%**	15.82%

The Capital adequacy ratio calculation is after netting off the proposed dividend distribution from the capital base.

36. CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

Risk Weighted Capital Requirement

The Group has adopted the standardized approach for credit risk and market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operational risk are given below:

i. *Risk weights for credit risk*

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the Central Bank of UAE Basel III Capital Adequacy Framework covering the standardized approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

- **Funded exposure**

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable external credit assessment institutions (ECAIs). Exposure to the Federal Government and Emirates Government receives 0% risk weight, if such exposures are denominated and funded in AED or USD. A 0% risk weight is applied to exposures to GCC sovereigns and their central banks only if these exposures are denominated and funded in the domestic currency of that sovereign and the Supervisory authority of that sovereign has adopted such preferential treatment for exposures to its own sovereign and central bank.

Claims on non-commercial public sector entities (PSEs) and government related enterprises (GRE)

Non-Commercial PSEs that are acknowledged by the Central Bank is treated in the same as Claims on Bank. Exposure to all other PSEs that are not included on the Central Bank's list must be treated like exposures to corporates.

Claims on government related entities (entities with greater than 50% government ownership) are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated government related entities.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with each bank's credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims were assigned more favorable risk weighting.
No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated corporate.

For unrated exposures to Small and Medium-sized Entities (SME) that do not meet the criteria of regulatory retail portfolio, an 85% risk weight will be applied.

36. CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

Risk Weighted Capital Requirement (continued)

i. *Risk weights for credit risk (continued)*

- **Funded exposure (continued)**

Claims on regulatory retail portfolio

Retail claims that are included in the regulatory retail portfolio (including SME) are assigned risk weights of 75% (except for those assets that are past due loans), if they meet the criteria mentioned in the Central Bank of the UAE Basel III guidelines.

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million to a single borrower and the claim was secured by residential property with LTV of up to 85%. If the two criteria cannot be definitively established or met, then if the exposure meets the criteria for regulatory retail claims then a 75% risk weight applies. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial real estate

100% risk weight was applied on claims secured by commercial property.

Past due loans

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of loan;
- 100% risk weight when specific provisions are greater than 20% of the outstanding amount of loan.

In the case of residential mortgage, when such loans are past due for more than 90 days it is risk weighted at 100%. All other assets are classified between 'assets under higher-risk categories' and 'others'; and risk weighted at the prescribed risk weights.

- **Unfunded exposure**

For credit-related contingent items, the nominal value is converted to an exposure through the application of Credit Conversions Factors (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

Undrawn commitments to extend credit represent commitments that have not been drawn down or utilized at the reporting date. The nominal amount provides the calculation base to which the CCF is applied for calculating the exposure. CCF range between 20% and 50% for commitment with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

- **Equity Investments in Funds (EIF)**

For all equity investments by banks in all types of funds that are held in the banking book (in-scope equity positions), the RWA is calculated as if the bank held the fund’s exposures directly rather than indirectly through investment in the fund. The Bank has used a hierarchy of three successive approaches i.e. Look-through approach (LTA), Mandate-based approach (MBA) and Fall-back approach (FBA) with varying degrees of risk sensitivity and conservatism, as required in the standards. Further, leverage adjustment to RWA is also incorporated to reflect a fund’s leverage appropriately as described in the standards.

36. CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

Risk Weighted Capital Requirement (continued)

i. *Risk weights for credit risk (continued)*

- **Credit Valuation Adjustment (CVA)**

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.

ii. *Risk weights for market risk*

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analysed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

iii. *Risk weight for operation risk*

Capital requirement for operation risk is calculated using basic indicator approach. This capital charge was computed using basic indicator approach by multiplying the three years average gross income by a predefined beta factor.

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which are considered immaterial.

Sustainability Report 2023

Table of Contents

1 Message from the Chairman

I am proud to present CBD's third annual sustainability report which showcases the Bank's Environmental, Social and Governance ('ESG') practices, progress, and commitments for the future.

2023 is set to be a significant year in the fight against global warming, and the UAE has a critical role to play. This was never more apparent than when His Highness Sheikh Mohamed bin Zayed Al Nahyan, UAE President and Ruler of Abu Dhabi, announced 2023 as the "Year of Sustainability". Further, His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, emphasized that COP28 will be the most important event hosted by the nation in 2023.

As the UAE drives towards net zero emissions by 2050, and as host of the 28th Conference of the Parties (COP28) in 2023, all organizations in the UAE will play an active role in helping to showcase how the UAE is a global leader in sustainability. As an organization that is backing the ambitions of our proud nation, CBD remains committed to operating its business in a sustainable manner, aligning with the UAE's efforts towards sustainable development, empowering local communities and preserving the environment.

In 2022, CBD assessed the ESG topics most material to the business, employees, customers, and other stakeholders. We appointed a dedicated ESG lead and ESG Council to govern initiatives, and to plan a roadmap to align with global standards. We are proud of the progress made on these initiatives, but equally cognizant that there is more to be done.

This report introduces our materiality matrix and a set of initiatives which align to the standards of the Global Reporting Initiative ('GRI'), the global leader for impact reporting, and to the Dubai Financial Market ESG reporting guidelines. We have also highlighted our ESG achievements in 2022. Our commitments are continually evolving as we identify new ways in which we can contribute to this global challenge.

Thank you to our shareholders, customers, employees and the communities we serve for your loyalty and faith in us. Now, more than ever, community collaboration and alignment are crucial to the sustainability of the planet for our future generations. I look forward to more engagement with our customers and stakeholders as we drive our sustainability agenda.

Best Regards,
H.E. Humaid Mohammad Al Qutami
Chairman

2 Message from the CEO

Sustainability remains at the heart of CBD’s business strategy and long-term planning. In 2022, we developed a matrix to identify the most material ESG topics for our stakeholders, including business, employees, and customers. The development of our matrix involved consultation with external strategy groups and helped us validate and refresh our existing five pillar ESG Framework.

Throughout 2022, we took significant steps on our ESG journey in addition to our ESG materiality assessment. Some of the additional highlights are listed below:

- We established our “Sustainable Finance Product Framework” in preparation for initiating a “second party opinion” in 2023 and with the intention of issuing a sustainable finance instrument.
- We identified a set of ISO Certifications which, once obtained, will demonstrate our commitment towards building a sustainable future.
- We enhanced our procurement process to ensure we prioritise partnerships with vendors who share our commitment to sustainability.
- We developed a roadmap to integrate climate risk into our enterprise risk management framework.
- We collaborated with Sharaf DG Group to offer solar panel financing and introduced preferential pricing for electric and hybrid vehicle loans.
- We introduced dedicated recycling bins and water dispenser machines, removing environmentally damaging plastic bottles in the process.

We have detailed these achievements in the section highlighting our progress in 2022. The subsequent section details the process for revising our framework for 2023 and for validating the material topics to our stakeholders. Key Performance Indicators (‘KPIs‘) for these topics have been assigned and will be monitored at a corporate and individual level over the course of 2023. Our progress against these KPIs will be tracked and monitored by our ESG Council. The Council is comprised of a cross-functional team and is jointly chaired by the Chief Risk Officer and Chief Customer Officer.

I am proud of our progress in 2022 and excited by what lies ahead in 2023 and beyond. It is an incredible time to be a part of this great nation, particularly as the UAE readies itself to host COP28 in 2023. We firmly believe that every citizen and organization in the UAE has a role to play in sustaining our future. We are determined to play our role and we look forward to backing the ambitions of the UAE.

Dr. Bernd van Linder
Chief Executive Officer

3 Bank Overview and Ownership Structure

Established in 1969, Commercial Bank of Dubai (CBD) is one of the first banks operating in the United Arab Emirates. It was established as a joint venture between Commerzbank, Chase Manhattan Bank, and Commercial Bank of Kuwait, before evolving into a public shareholding company in 1982 when the Government of Dubai took a 20% stake.

Over the years, Commercial Bank of Dubai has built itself into a progressive and modern financial institution, led by a strong management team as well as a loyal and ever-increasing customer base. Today, CBD is one of the leading banks in the United Arab Emirates and offers its customers a full range of retail and corporate banking products and services.

The Bank is listed on the Dubai Financial Market and is mostly owned by UAE Nationals, including 20% by the Investment Corporation of Dubai ('ICD').

CBD launched full-fledged Islamic Banking, "CBD Al Islami", on September 18, 2008 to offer Sharia compliant banking and financial services.

As of 31st December 2022

Shareholders	Percentage
Investment Corporation Of Dubai	20.0%
Al Futtaim Private Co	10.51%
Orient Insurance P.J.S.C	8.84%
Abdulla Hamad Al Futtaim	6.95%
Abdul Wahed Al Rostamani AWR Group LLC	6.61%
Ghobash Trading & Investment Co Ltd	6.37%
General Public	40.72%

4 Business Overview

CBD Purpose - ‘Backing the Nation’s Ambitions’

CBD Vision - To be the best bank for our customers

CBD continues to focus on our franchise customers within Institutional, Corporate Banking and Personal Banking. A priority for the bank is to continue to deliver on a number of transformation programs focused on servicing our customers in a “Default Digital“manner, leveraging investments made in Information Technology.

Our strategic priority is to deepen relationships with key franchise customers, supporting their end-to-end banking needs. Whilst delivering on this goal, it is key to ensure that our continued growth across target customer segments is fully aligned with the bank’s risk appetite. In addition, as a cornerstone of our strategy, we continue to drive our high-performance culture by investing in differentiated capabilities and building talent, with a clear focus on Emiratization. All our efforts are directed towards providing a great customer experience.

Looking ahead, the Bank expects to further expand its market share supported by stable and diversified funding, an increased share of non-funded income, improved digital adoption rates, reduced cost of risk, and by maintaining asset quality with appropriate provisioning. The bank aspires to deliver returns that meet shareholder expectations. At all times risk culture and compliance with regulatory and community expectations remain central to our operating environment.

Financial Highlights

Net Profit

AED 1,825m

Return on Equity

15.99%

Cost to Income

26.14%

Assets

AED 116b

Capital Adequacy Ratio

16.04%

CET1 ratio

12.40%

Commercial Bank of Dubai delivered an exceptional financial performance in 2022, achieving record revenue and net profit and recording market leading Return-on-Equity and Cost-to-Income ratios. Revenue grew by 20%, and operating profit grew by 22% year-on-year, with a record 16% Return-on-Equity. Asset quality improved as we maintained our prudent approach towards provisioning for non-performing loans, whereby our coverage ratio increased from 63% to 80%. Our funding, liquidity and capital ratios remained strong and were well above regulatory requirements.

Our efforts resulted in an operating profit of 2.82 billion Dirhams, a 22% increase compared to 2021 and a net profit of 1.83 billion, a 26% increase compared to 2021. The net profit of 1.83 billion was a record for our Bank and has enabled us to propose a record cash dividend of 26.05% on paid-up share capital*, which equates to a 40% payout ratio together with a special bonus share issue of 6.51% of paid up share capital or a 10% payout ratio on net profit. The proposed dividend payout was enabled by our high-quality operating performance and strong capital position, which continues to be well above the regulatory thresholds set by the Central Bank of the UAE.

Awards

- “Number One Bank in the UAE” – Forbes World’s Best Banks 2022 Report
- “Best Robo Advisory Provider”– MEA Finance Wealth & Investment Awards 2022
- “Excellence in Digital Banking”– Finnovex Awards 2022
- “Outstanding Robo Advisory” and “Most Effective Investment Service Offering” for CBD Investr – The Digital Banker 2022 Digital CX Awards
- “Outstanding Supply Chain Finance Solution” – Middle East & Africa Innovation Awards 2022
- “Best Innovation in Investment Banking” for CBD Investr –MEA Finance Banking Technology 2022 Awards
- “Best Technological Innovation in Financial Services” – Seamless Awards 2022
- “Best Mobile Banking Service Implementation Award” by MEA Finance Industry Awards 2022 for our iBusiness Mobile App.

*The dividends are subject to approval of the Central Bank of the UAE and shareholders’ approval at the Annual General Meeting

5 ESG Strategy

Environmental, Social and Governance ('ESG') factors have become increasingly important, especially over the last decade. Set against a turbulent geopolitical backdrop, COP27 resulted in countries delivering a package of decisions that reaffirmed their commitments to limit global temperature rise to 1.5 degrees Celsius above pre-industrial levels.

These commitments highlight the seriousness with which governments and organizations worldwide are aiming to address climate change and ESG to ensure a sustainable future for ensuing generations.

The following are the highlights of the transformation that CBD initiated under its ESG framework, and with the aid of external experts.

Initiative	Description
Materiality Matrix	We reviewed the ESG topics most relevant to the bank, by surveying both internal and external stakeholders including senior management, employees, customers, NGOs, and peer banks.
Governance	We evolved our governance to involve multiple departments of the bank in the accountability, ownership, and oversight of material ESG topics.
Sustainable Finance Framework	We established a Sustainable Finance Framework, to develop and promote sustainability driven products and services of the bank. The publication of this Sustainable Finance Framework will support the future issuance of CBD sustainable financing instruments, which include, but are not limited to Bonds, Loans, Commercial Papers and Sukuks. The framework and the subsequent issuances will serve as a basis to continuously engage with investors, lenders, and stakeholders on CBD's sustainable finance strategy and will demonstrate progress in developing sustainability themed products and services to support the UAE energy transition ambitions.
Vendor ESG assessment	CBD developed an approach to assess vendors on their ESG score that will help us form a sustainable procurement practice.

ISO certification	We identified areas to obtain ISO certificates and initiated the process for obtaining external certification.
Climate Risk integration	A roadmap for integration of Climate Risk into the enterprise-wide risk management was developed. In 2023, we will implement the roadmap.

ESG Materiality Matrix

In our 2021 ESG report, we committed to transform our current five-pillar ESG framework, shown below, into a materiality matrix to identify the material ESG topics for our business and stakeholders.

UAE Community	CBD People	Financial Inclusion	Governance	Environment
Local Sourcing Do we obtain our supplies via local chains?	**Emiratization** Are we providing a place of employment that attracts, and develops UAE Nationals?	**Financial Literacy** Do we go beyond guidelines to teach our customers on financial matters?	**Oversight** Is our Board and Executive Committee providing ESG oversight?	**ISO Certification** Do we possess official recognition of our green efforts?
Philanthropy Are we donating and volunteering at the local level?	**Diversity & Inclusion** Do we consciously consider diversity & inclusion while recruiting new talent?	**Digital Offering** Are our tech capabilities and digital applications best-in-class?	**3 Lines of Defense** Do we have an informed and empowered first line of defense?	**Environmentally Friendly Procurement** Are our procurement practices eco-friendly?
Supporting Minorities Do we support opportunities for all people including the vulnerable?	**Wellness** How is the physical, mental, and financial well-being of our employees?	**Segment-specific Products** Do we offer our products to a variety of population segments?	**ESG as part of ERM** Does our corporate governance and risk management framework reflect sustainability matters?	**Monitoring Internal Resource Use** Is the behavior of our staff, use of property and waste management sustainable?
Sponsorships Is the brand reflected locally?	**Employee Engagement** Do our employees possess multiple forums to engage and be listened to?	**SME / Wholesale Lending** Do we actively promote and nurture entrepreneurship and growth?	**Business Continuity** How resilient is our business to external shocks?	**Environment-focused Products** Will our product catalogue attract green-savvy customers?
Customer Value Proposition Are we backing the ambitions of all our customers?	**Learning & Development** Are training and upskilling readily available opportunities?	**Customer Experience** Are we listening to our customers and ensuring that we are constantly improving customer journeys?	**Anti-corruption (AML/CTF)** Do we have the right anti-corruption safeguards in place?	**Sustainability-themed Initiatives** Do our initiatives actively encourage 'thinking sustainably'?

In 2022, CBD engaged third party experts to conduct a complete materiality assessment to review the ESG topics most relevant to the bank. This assessment involved consultation with both internal and external stakeholders.

The following steps were taken to identify the key ESG topics for our stakeholders:

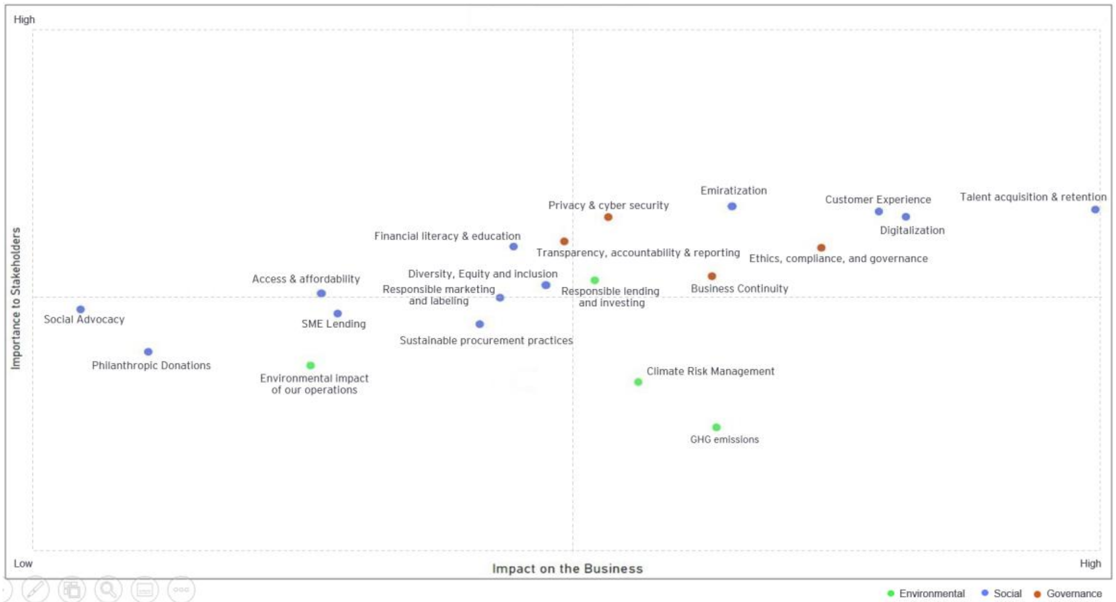
1. **Refinement of key ESG topics -** Analysis was performed on the emerging local and global ESG trends to identify the most appropriate ESG topics. We referred to GRI and Sustainability Accounting Standards Board ('SASB') as global sustainability standards and guidelines to identify a comprehensive list of ESG topics. Our review was further informed by the United Nations Sustainable Development Goals (UN SDGs).
2. **Stakeholder Engagement -** CBD prioritized the comprehensive list of topics by reviewing the needs and expectations of stakeholder groups (customers, employees, senior management, and communities). CBD engaged with stakeholders via interviews, group discussions and surveys, as illustrated below.

Stakeholder Group	Most Important Topics Identified	Engagement Channels
Customers	• Responsible lending and investing • Customer Experience • Privacy and cyber security • Ethics, compliance, and governance • Sustainable procurement practices	Wholesale and Personal Banking customers (total 10,000+ customers) were contacted using customer surveys. CBD digital channels and relationship managers were used to conduct the survey.
Employees (including senior management)	• Talent acquisition and retention • Customer Experience • Digitization • Transparency, accountability and reporting	500+ selected employees (manager and above level) were consulted using employee engagement (meeting and group discussions) and employee surveys.
Communities (NGOs etc.)	• Philanthropic Donations • SME Lending • Social Advocacy	38 NGOs were surveyed using direct calls and online surveys.

3. CBD analyzed both the qualitative and quantitative findings from stakeholder engagements and identified the most important ESG topics to CBD and its various stakeholders.

The ESG materiality matrix topics are material to both internal and external stakeholders and the CBD businesses. The materiality assessment exercise will be revisited annually to ensure that our topics remain relevant. These 20 ESG topics are the area of focus for the bank and are aligned with the bank's five-pillar ESG framework.

Below is an illustration of the current materiality matrix which shapes our priorities for 2023.



ESG Governance:

Our ESG initiatives are governed by an ESG Council accountable to the Bank's Executive Committee to ensure we deliver on our commitments. The Committee is comprised of a cross-functional team from various departments within the Bank, including representatives from Human Resources, Customer Engagement, Enterprise Risk Management and Corporate Social Responsibility. The committee is co-chaired by the Chief Risk Officer and Chief Customer Officer.

Key Performance Indicators (KPIs) material to ESG will be assigned and monitored at a corporate and individual level over the course of 2023, and we will share performance against those KPIs annually in our ESG reports.

Our ESG progress in 2023 will be driven by the following work streams:

Overall ESG direction:

- Set targets and KPIs on the material topics to support CBD's ESG strategy, including a plan for scope 1 and scope 2 greenhouse gas emissions
- Start planning for disclosures to global standards such as TCFD and ISSB

Lending and investing activities:

- Incorporate ESG in the lending strategy
- Identify and map the existing green book of the Bank
- Certify and utilize our Sustainable Finance Framework

- Explore further green products and services

Risk Management:

- Integrate Climate Risk in our Enterprise Risk Framework, and update the credit policy and stress testing framework to integrate Climate Risk

Independent Certification:

- Obtain ISO certificates on business continuity, privacy and cybersecurity
- Use second party opinions on sustainable finance product framework

Miscellaneous

- Contribute to the success of COP 28
- Upskill employees on the Bank and the Nation's ESG agenda

6 Progress in 2022

Drafted **Sustainable Finance Framework**	Partnered with Sharaf DG Energy to offer **discounted solar panel loans**	**Launched discounted loans** for electric and hybrid vehicles
100% admin related procurement from **local vendors**	**31 charities sponsored**	**Elimination of plastic bottles** from CBD offices
123% increase in no. of training hours	**166,338 DIGI accounts** in 2022 compared to 117,446 in 2021, in support of our financial inclusion drive.	**22,499** CBD Investr app customer registrations in 2022, making **investing accessible**
Developed our **climate risk roadmap**	**17% increase** in number of learning initiatives	**100%** mandatory trainings completed by CBD employees

In the following sections, which align to the five headings of our ESG Framework, we have provided insights into the Bank's sustainability roadmap and highlighted some of our key achievements and ambitions for 2023 and beyond.

7 UAE Community

Responsible Procurement

As a local bank, we are focused on backing the businesses and the residents of the UAE. This gives us a direct line of sight of both our customers and suppliers. When selecting our suppliers, our procurement policies are defined to favor UAE companies. All of our admin suppliers are 100% local and IT suppliers are required to have local branches and distributors. In 2023, we will begin scoring our suppliers on their in-house ESG practices as we look to reward suppliers who share our ESG goals.

Stakeholder Engagement

CBD is part of a greater socioeconomic ecosystem, and we recognize that we depend on robust relationships with all our stakeholders to use our financial expertise to do good for individuals, families, businesses, and society. Engagement is an integral part of developing an understanding of our stakeholders' needs, interests, and expectations and assists the bank with strategic, sustainable decision-making.

Collaboration and regular interaction with all stakeholder groups are essential to the bank's long-term resilience and to the effectiveness of our integrated sustainability approach. Stakeholder engagement is undertaken with a far broader aim than merely communicating 'to' various stakeholder groups. Rather, CBD considers its various stakeholders as key partners in its endeavors. Our Stakeholder Engagement is informed by the following set of principles:

- **Commitment** is demonstrated when the need to understand, engage and identify with the community is recognized and acted upon early in the process.
- **Integrity** occurs when engagement is conducted in a manner that fosters mutual respect and trust.
- **Respect** is created when the rights, cultural beliefs, values, and interests of stakeholders and neighboring communities are recognized.
- **Transparency** is demonstrated when community concerns are responded to in a timely, open, and effective manner.
- **Inclusiveness** is achieved when broad participation is encouraged and supported by appropriate participation opportunities.
- **Trust** is achieved through open and meaningful dialogue that respects and upholds a community's beliefs, values, and opinions.

Our key Stakeholders are our clients, employees, shareholders, regulators, and communities.

Corporate Social Responsibility

The Board of Directors has the power to design, assess, and continuously revise the Corporate Policies, which contain the guidelines governing the conduct of the Bank and further develop the principles reflected in our Purpose, Vision, and Values and the other components of the Corporate Governance system.

Our Corporate Social Responsibility policy is intended to promote a culture of social responsibility within the organization, which contributes to the sustainable creation of value for our shareholders.

We contribute to the development of communities by promoting educational and cultural initiatives. We also undertake initiatives to protect vulnerable groups.

Being a responsible organization is integral to our success and we are engaged on the issues that matter most to our stakeholders. Our employees are guided by a common set of values that ensure we deliver on our goals while also helping to address local challenges.

We carry out our business enterprise and our own business model with the objective of sustainably creating value for society, customers, shareholders, and the communities in which we are doing business, providing high-quality service through innovation and maintaining awareness of the opportunities offered by the knowledge economy.

Our CSR objectives are the following (i) providing and raising awareness about preventive healthcare and preserving and promoting sports (ii) investing in youth (iii) promoting education and cultural activities (iv) encouraging volunteering through social activities aiming to create livelihoods for people, especially those from disadvantaged sections of society and (v) promoting sustainable finance.

Supporting Sports, Culture, and the Arts

At CBD, we aim to celebrate the uniquely beautiful culture of the UAE by embracing Emirati traditions and heritage, as well as through supporting sports events and arts. The Bank sponsors many cultural activities across the UAE to promote and celebrate the UAE’s traditions and its art and culture. We are a key player in promoting sports and athleticism among the youth.

CBD continues to sponsor horse races at the Jebel Ali Horserace, which began more than 28 years ago, in a step that reinforces the bank's status as a major sponsor of supporting UAE’s cultural events in general and horseraces events specifically. CBD committed to sponsoring 8 races from November 2022 until March 2023.

The CBD Run on the Palm took place on the 5th of March. CBD sponsored the event, which attracted over 1000 participants of which 200 were CBD employees.

Corporate Social Responsibility Initiatives 2022

Humanitarian Work in the UAE is a deeply ingrained value that the late Sheikh Zayed has instilled in every citizen and resident in the UAE to ensure that the country remains an oasis of goodness, giving and humanity. On the occasion of marking Zayed Humanitarian workday, CBD donated to 31 charitable, educational, research and training and rehabilitation centers for people of determination across the UAE. We gathered with our partners to mark this remarkable day and further explore future volunteering opportunities. We have visited Fujairah charity center, Qubba Islamic Sciences and Cultural Centre located in Ras Al-Khaimah and explored ways of strengthening our partnerships.

CBD, in affiliation with the Emirates Red Crescent and the Islamic Affairs and Charitable Activities Department, participated in a "Back to School" initiative from the 16th of August to the 2nd of September to support those less fortunate in providing items for their children’s educational well-being and happiness at the start of the new academic year. Around 36 boxes were collected and sent to the Emirates Red Crescent, along with 272 back to school vouchers from the Dubai library distributors each worth AED50.

On 11th October 2022, to mark Breast Cancer Awareness Month, our partner, Al Jalila Foundation, invited us to a panel discussion with cancer survivors.

The Mohammed bin Rashid Global Centre for Endowment Consultancy (MBRGCEC), under the Awqaf and Minors Affairs Foundation (AMAF), announced the launch of the “Bread for All” campaign, which aims to serve underprivileged families and laborers. The digital initiative aims to provide fresh bread free of charge to those in need through smart machines deployed in several outlets. CBD is a proud sponsor of the very successful initiative. In September, CBD was awarded with the Dubai Endowment Sign from the MBRGCE in recognition of the success of the campaign.

CBD, in collaboration with the Al Noor training center, planned a movie outing with their students of determination and CBD staff as part of CBD’s volunteering drive. The CBD Volunteering Club arranged two volunteering opportunities at the Dubai Club for People of Determination. These impactful sessions included supervising workshops as well as coaching and leading sessions.

Every year, CBD celebrates International Women's Day and backs the ambitions of all our female colleagues as they continue to succeed and inspire others around them. This year we have asked the women working at CBD, "What does International Women's Day mean to you?“ in a short video which we were proud to share on our social media channels.

CBD hosted an inspirational motivational speaker, Her Excellency Eng. Azza Bin Sulaiman, Deputy Secretary General of the National Olympic Committee and a former member of the

Federal National Council, on Emirati Women's Day. During the seminar, Her Excellency emphasized the country’s transformation over the past 50 years, and the increased presence of Emirati women in different fields.

Sheikha Latifa bint Mohammed Awards for Childhood Creativity, launched by Dubai’s Women’s Association, has honored CBD for its continuous support of the organization as a strategic partner.

CBD acknowledged mothers by passing flowers and a greeting card among all CBD’s female colleagues on the 21st of March honoring all mothers. CBD joined millions of people across the world in raising awareness of issues facing our planet by switching off the lights for one hour in support of Earth Hour on the 26th of March and organized multiple events including a competition for the best captured earth hour picture.

In support of the World Autism Awareness Day, CBD arranged a visit to the Dubai Autism Center on the 29th of March to recognize and spread awareness for the rights of people with autism. CBD hosted a World Thalassemia Awareness Day event with Dr. Essam Dohair, Medical Advisor at the Emirates Thalassemia Society, on the 9th of June.

UAE National Day celebrations took place at CBD’s head office this year. We also celebrated the national day with Al Jalila Foundation patients and their families and visited the Seniors’ Happiness Centre as a gesture of social and community welfare.

In August, CBD welcomed Naina Kundra to our Head Office. Naina is a 12-year-old school student from Dubai whose ambition is to spread awareness across the UAE about the detrimental environmental impact caused by single-use plastics. As the bank that is backing ambition, CBD was delighted to support her cause. During Naina’s visit, more than 350 CBD employees and customers signed Naina’s ‘Save our Earth’ pledge within the first hour, committing to reducing their consumption of single-use plastic and, in return, received a reusable jute bag.

CBD stood in solidarity with Pakistan and the millions of people affected by the devastating floods in Pakistan this year. During this challenging period, CBD offered exclusive exchange rates for money transfers to Pakistan and contributed to relief efforts with every customer transfer, in association with the Emirates Red Crescent.

CBD was the first bank to host its AGM at the Expo site reflecting the Bank's commitment to support the United Arab Emirates and all its initiatives, as well as celebrate the success of Expo 2020 and provide CBD's shareholders with the opportunity to further explore the Expo pavilions and offerings. To further celebrate the occasion, the Bank encouraged all its employees to visit Expo 2020 Dubai and marked the occasion as a "CBD EXPO Day" by giving employee a half day-off and free tickets to the venue. Many employees used the opportunity to visit Expo along with their office colleagues and had a memorable time enjoying the various activities and events at Expo 2020.

8 CBD People

Our People

Our employees are our most valuable asset as we continue to grow and transform our business. The promise to all of our customers is that we are the bank that is 'backing your ambition'. However, this promise can only be delivered if we first back our employees by enabling, empowering and encouraging them to exhibit the CODE values of Collaboration, Ownership, Delivery and Excellence in everything they do.

The CBD Employee Value Proposition - 'Backing You''

Our customer promise (Backing Your Ambition) and employee value proposition (Backing You) mirror each other, **reinvigorating our employee experience and thus enabling our customer experience aspirations.**

Further, we focus on innovation, learning and diversity, which helps us attract, develop and retain the right talent, and provide the foundation for the growth of our business.

This section brings together the interconnected ways we think about diversity and inclusion at CBD. It sets out our strategy to build and maintain a high-performance culture enabling our employees to feel supported professionally and part of a community, providing equality of opportunity for talent at all levels and from all backgrounds to grow.

Employee Engagement and Wellbeing

CBD continues to keep the health and wellbeing of its employees as a top priority, providing a series of wellbeing initiatives across 2022. As our most valuable asset, our employees and their holistic health are important to drive engagement, increase resilience and support optimum performance and productivity levels.

Our Employee Wellbeing initiatives are designed to back employees physically, financially, socially and emotionally, helping to create a positive impact on both their work and personal lives.

Emotional Wellbeing: The Employee Assistance Program, Sanad, was launched successfully to provide telephonic counselling support to employees and their family members. Online webinars on various topics such as ‘The importance of Emotional Wellbeing’, ‘Stress and Anxiety’, ‘Positive Parenting’, and ‘Self Esteem’ were delivered with subject matter experts and a Psychologist to boost the emotional wellness of our employees.

Financial Wellbeing: We conducted a series of webinars to create awareness for our employees on the benefits of savings and investments.

Social wellbeing: In collaboration with our CSR team, Personal Banking team and external operators, we provided opportunities for employees to participate in volunteering activities and to foster better social relationships with colleagues.

Physical Wellbeing: A series of physical activities were held in Q4 including Deskercise, group functional training, group boxing sessions and medical assessments, encouraging employees to participate in the 30x30 challenge.

Employee Engagement

We continued to measure our employee engagement to ensure that we are providing the optimum environment and culture for our employees to succeed and be happy. Every year we run a bank-wide employee engagement survey in which employees are provided an opportunity to give feedback on what is working well and what needs to improve. In 2022, our employee engagement score was 75, which showed improvement from 2021.

Diversity and Inclusion

We believe that diversity in our workforce makes CBD a stronger company. To build and maintain diversity, we create a culture that makes everyone feel included and supported and provides equal opportunities for talent at all levels to grow. The following tables illustrate our focus on diversity and inclusion.

Overall Workforce and Nationality Concentration:

Table 1: Total number of employees based on their nationality

Nationality	Number of Staff				Percentage		
	2022	2021	2020		2022	2021	2020
UAEN	363	351	319		35%	35%	32%
Indian	259	261	271		25%	26%	27%
Pakistani	97	86	85		9%	8%	9%
Egyptian	39	45	48		4%	4%	5%
Jordanian	31	34	38		3%	3%	4%
Others	248	235	234		24%	23%	24%
Total	**1037**	**1012**	**995**		**100%**	**100%**	**100%**

Our Female Colleagues in Numbers:

Table 2: Total number of female and female UAEN employees in CBD and % over the total of CBD population

	Number of Staff			Percentage		
	2022	2021	2020	2022	2021	2020
Number of Female Employees	441	420	390	43%	42%	39%
Number of Female UAEN Employees	265	256	228	26%	25%	23%

Our Emiratization Approach:

At CBD, we align with the UAE Government's strategy to increase the Emiratization rate within the Banking sector and support the country's ambition to attract and develop UAE Nationals into this core industry. To support this ambition, we focus on the implementation of different learning and development programmes for our UAEN colleagues to support their career ambitions and back their ongoing professional development across the Bank.

The number of UAE Nationals in C-Suite positions increased in 2022 and currently the Emiratization rate for our Executive Committee stands at 33%, increasing from 25% in 2021.

Talent Management:

CBD is committed to building a performance management and development framework that will enable all employees to drive performance and realize their potential through their continuous learning and development, which in turn will help to build organizational capability.

Performance Management and Pay:

At CBD we operate a performance-based compensation approach. This means that employees are rewarded based on both their individual performance as well as that of their business unit. Our performance-based pay includes bonus, incentives and recognition awards.

The performance management cycle is staged as follows:

- Stage 1 – Planning through KPI setting as well as discussing and agreeing an individual development plan
- Stage 2 – Mid-year review of performance is an opportunity to provide feedback, discuss areas of improvement and review KPIs, if required
- Stage 3 – Year-end Assessment of performance to determine individual performance ratings of all employees

Employees who are assessed outside of Performance Management cycles are reviewed through the respective performance assessment schemes such as the Sales Performance Management System, and the Collections Performance Management System. These are managed on a monthly or quarterly basis in line with the type of the role/ business function.

Reward and Recognition

Our Total Reward Framework:

At CBD, our Total Reward Framework comprises of cash remuneration as well as benefits and recognition. The rewards and recognition provided at CBD are commensurate with market benchmarks and are differentiated based on performance.

Remuneration Package:

Fixed pay includes basic salary and allowances, which are primarily determined by the market value of the job, the performance of the employee and the overall experience of the candidate.

In addition, there are other components of the remuneration package, including:

1. Variable Pay: Bonus / Incentives
2. Non-Cash Benefits
3. Recognition Awards
4. Long Term Incentive Plan

Our Recognition Programmes:

Our recognition programmes have been an important tool to show our employees our appreciation.

At CBD we foster a work environment where employees are recognized for driving high performance and displaying behaviors that align with our culture, demonstrating Collaboration, Ownership, Delivery and Excellence ('CODE').

The CODE Awards are given to recognize employees and Line Managers who demonstrate both personal drive and positive behaviors aligned to CBD's CODE Values.

The SPOT Award is a program designed to enable Line Managers to nominate their employees for displaying good behavior and process enhancements instantaneously.

Flexible hours

As part of our ongoing ambition to create a high-performance organization, we maintain flexible working hours across the Bank. In this context, we strongly believe that the quality of work and output delivered to our customers throughout the working day is more important than the number of hours spent in the office. Working days can therefore start from 7AM to 9AM and finish from 3.30PM to 5.30PM. This flexible approach remains unchanged after the working week changes announced by the Federal Government at the end of 2021.

Employees need to work 8.5 hours per day from the time they start work. We believe that flexibility in our working hours will allow employees to manage their work and personal lives in balance. Such flexibility can be provided only without inconvenience to customers and disruption to normal business, so all working arrangements must be agreed in advance with the relevant line manager and approved by the Department Head. This arrangement does not apply to colleagues working in branches or our contact center or any other roles where shift working is required.

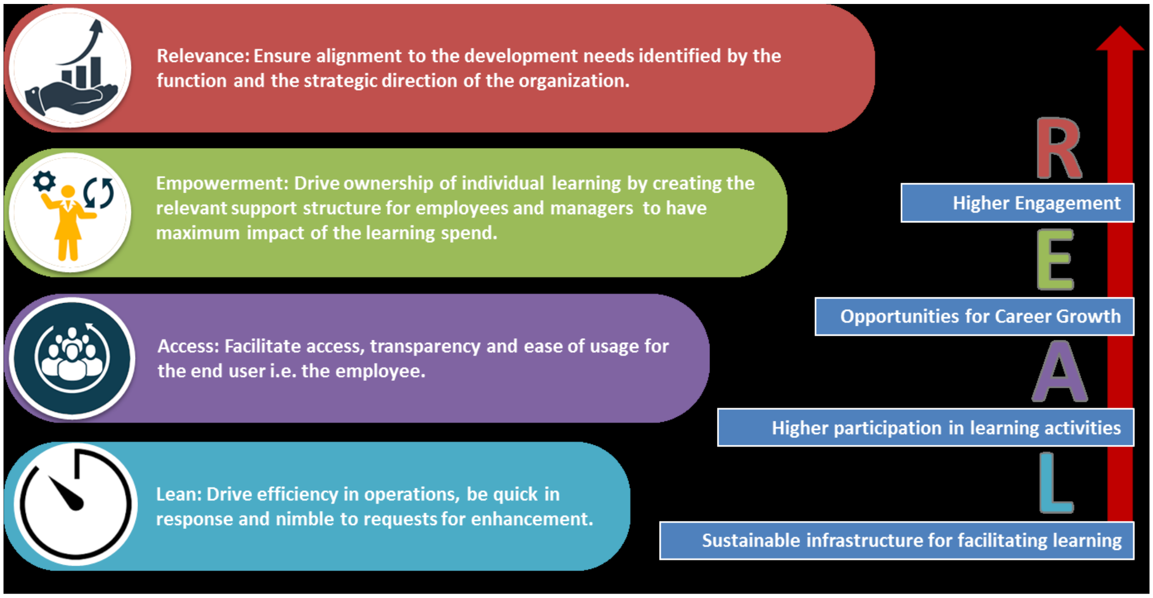
Learning and Development

CBD is committed to supporting the continuous learning and development (L&D) of its employees to build organizational capability. Developing the overall competence of employees is an investment that drives both organizational and individual goals. The Bank is committed to facilitating learning and development interventions which enable all employees to drive performance and realize their potential.

We have continued to invest significantly in the development of all our employees' skills and knowledge to increase the employability of all our staff. In 2022, CBD employees completed 100% mandatory trainings which is in line with regulatory requirements of the Central Bank of the UAE.

In 2022, CBD fully utilized its L&D budget across technology platforms, training events and certifications.

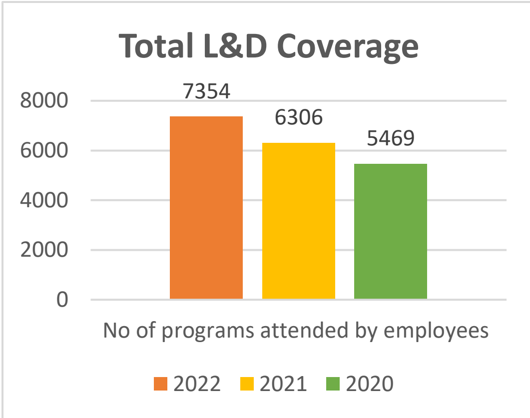
The learning and development principles are defined in the following illustration:

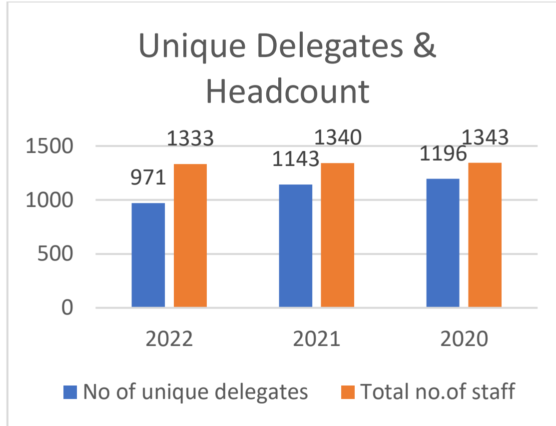


Learning Framework:

The 70:20:10 learning principle is applied wherever possible. **70%** of the learning is facilitated on the job through experiential learning, **20%** through social learning and **10%** through formal learning including e-learning. Social learning helps improve and reinforce formal and experiential learning.

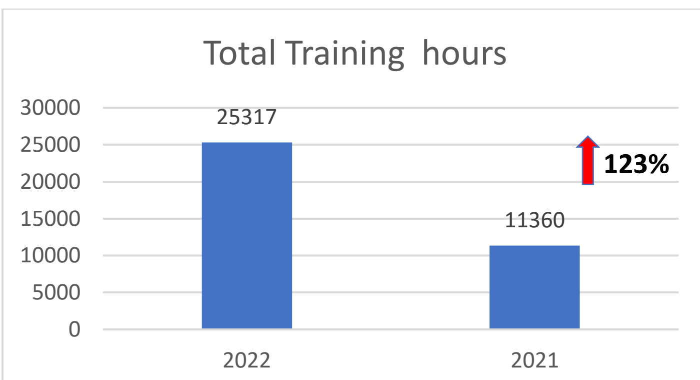
L&D Coverage:





In 2022 there was a 17% increase in the number of learning initiatives attended by employees. These initiatives include in-house classroom training, virtual training, Emirates Institute for Banking & Financial Studies Emirates Institute for Banking & Financial Studies ('EIBFS') training programs, "Open Sesame" (digital library) training programs and other online learning programs

During 2022, 7354 learning initiatives were undertaken. It is pleasing to witness a 123% increase in the total number of hours spent on development activity across the bank since 2021.



Learning Management System Platform Update:

CBD's Digital Library saw an increase of 25% in usage compared to the previous year. We offered interactive and informative eLearning modules across a range of categories such as Sustainability, People Skills, Leadership Skills, Data Analytics and Health and Wellbeing.

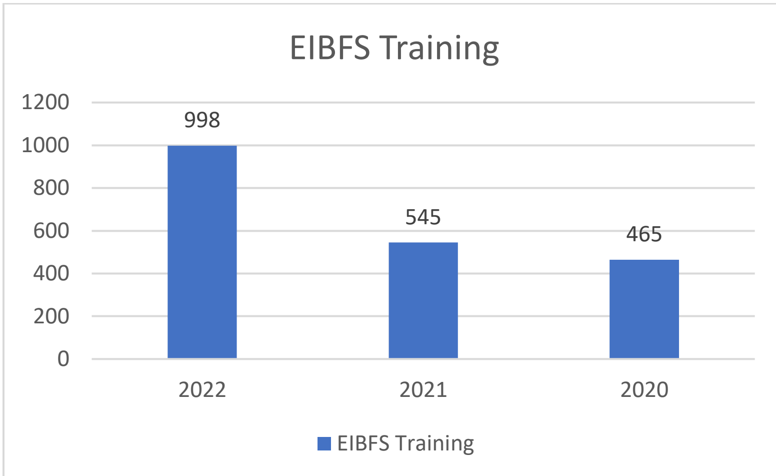
As part of our continued compliance to regulatory requirements, all our employees undertake Mandatory eLearning Programs on an annual basis. For 2022 the programs were conducted in two phases. Phase 1 covered topics such as Consumer Protection Regulation Refresher, Operational Risk Management, FATCA and CBD's Complaints Management Process. These were delivered on a new innovative platform using gamification and artificial intelligence. Phase 2 covered topics such as Information Security, Anti-Money Laundering, Fraud Awareness, Code of Conduct, Business Continuity Management and Sanctions. In 2022, we successfully achieved a 100% completion on all the programs, a first for the Bank.

Certifications:

During 2022, we continued to support employees to take up professional certifications and we certified employees in the following specializations: PMP, ACAMS, CISI, CISSP, CIA and CIPD.

EIBFS:

EIBFS is one of our key training providers. In 2022, our employees continued to access learning programs through EIBFS which were delivered via e-learning and virtual training to replace classroom training. Overall, in 2022 we saw an increase of 83% usage of EIBFS programs.



Emiratization Focused Learning and Development Programs:

Emiratization is a key focus and strategic objective for our Bank. To support this important objective, we run a set of programs for the development of Emirati talent. These are set out below:

Tumoo7 Management Graduate Program:

This is a unique structured program for fresh UAE graduates offered by CBD. The program is designed to equip the graduates with skills that will prepare them for seamless integration into a corporate role at CBD after university. Each graduate is assigned to a specific department where they undergo "on-the-job" learning while simultaneously attending formal training courses for technical and soft skills. Each participant is assigned a Senior Manager in the Bank who serves as their mentor to help them define their career path. A final presentation on product and process enhancement is the capstone project for this program. All participants are evaluated at the end of 12 months to assess their readiness to move into an Assistant Manager position.

Accelerator Program:

CBD completed this program, originally launched in October'21, and which was aimed at developing aspiring UAE Nationals for them to take up more senior roles in the Bank.

Further Graduate Development:

The new batch of graduates for 2022 were enrolled for the Certified Banking Operations Certification delivered by EIBFS in collaboration with the Banking Institute of Hong Kong. A selection of the graduates will also go on to study for professional certifications through EIBFS.

Credit Skills:

In 2022 we partnered with a globally renowned training provider to deliver a Credit Skills program to UAE Nationals across WBG, Credit and PBG. Participants underwent 20 days of classroom training aimed at developing their credit skills. They finished the program with a capstone project and a presentation to executive management.

9 Financial Inclusion

Throughout 2022, CBD produced a series of 12 financial education and awareness initiatives for our customers and prospective customers on topics such as fraud prevention, data protection, shopping smart and the global investment outlook. CBD also conducted 30 “CBDTalks” on social media to increase consumer education and awareness on topics such as ESG and the Transition to Net Zero, Women in Leadership, the Future of Buy Now and Pay Later and the Rise of Embedded Banking.

Technology and Innovation

CBD’s Digital Transformation:

CBD was one of the first banks to start digitizing its services as it launched UAE’s first digital-only bank. This bold initiative is part of a strategy that has been in place for many years, with the aim of making digital technology the main driver of its business development. CBD maintains its focus on servicing customers through “Default Digital“ channels, with a large part of its project portfolio focused on enhancing our digital solutions with practical and fast functionalities that align with the needs of connected customers.

The successful transformation of CBD is the result of visionary governance of the transformation agenda, which is based on the following pillars:

- **The customer at the heart of the strategy**: The cornerstone of any organization is its customers and at CBD, we put the customer first in addressing their requirements, ahead of anything and everything else. We strive to build healthy and long-term relationships with our customers by identifying their needs and at the same time providing the best possible service experience for them.
- **A shared vision of “the digital bank of now”**: To achieve our desired objectives, CBD is multiplying its efforts to unite all teams around a common goal. Digital transformation is seen as a collective commitment where results will benefit everyone.
- **Agility and experimentation**: To succeed in the digital transition, the Bank favors an agile and collaborative approach that embeds the different functions in the design of new solutions. We experiment to perfect products and then offer them in a relevant way to customers.
- **Partnership with FinTechs**: In order to accelerate the innovation process, CBD quickly realized the benefits of partnering with FinTechs as they offer agility and a more nimble approach while banks provide the scale, trust, regulation and customer base, making it a win-win solution for the customer.

Product and Services Responsibility

As a Bank, our obligations to our customers are elucidated in our Customer Charter and primarily cover 4 key assurances:

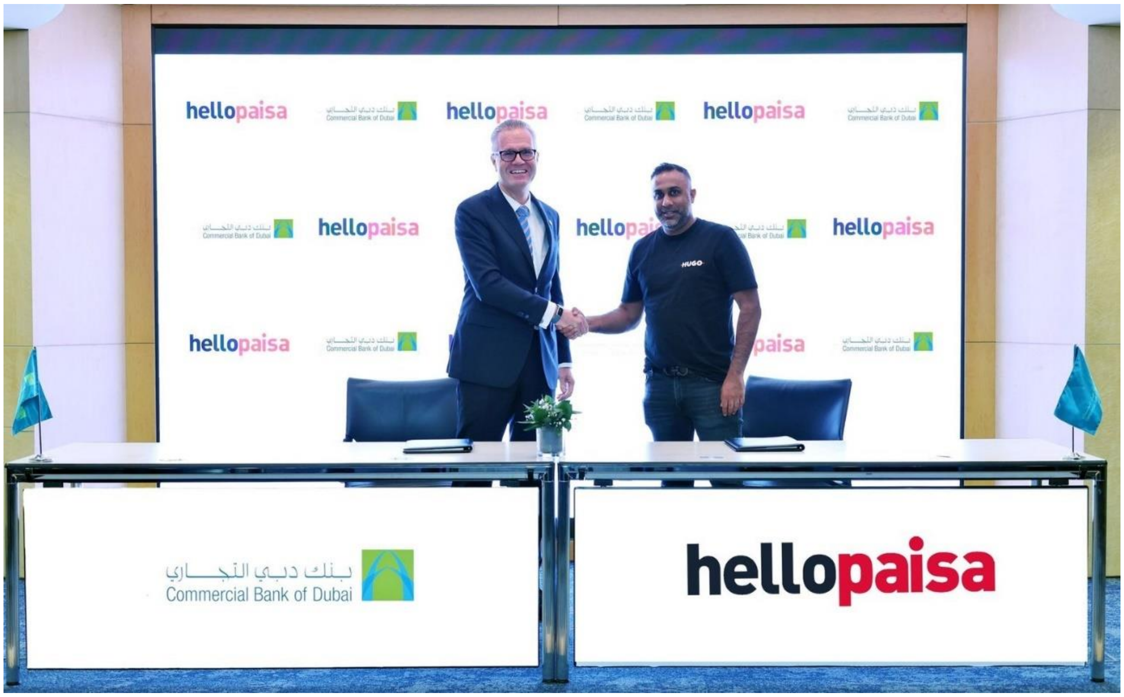
- **Customer First** – We will put a premium on our customers by providing courteous and prompt services with the objective of creating suitable and sustainable relationships, meeting our customers' financial goals.
- **Innovation** – We will consistently innovate to create solutions for convenient banking across all channels.
- **Trust** – We undertake to maintain the privacy and confidentiality of the personal and financial information of our clients. Our bank upholds transparency in regard to the terms, conditions, fees, and charges of the products and services offered.
- **Responsive** – We assure our customers that all queries and requests will be handled in an efficient and timely manner. Our customer feedback and suggestions are extremely important to us, and we are committed to responding and improving.

Our partnership with NowMoney, the Dubai-based FinTech, flourished throughout 2022, enabling us to provide accounts and cards to low-income customers. Moreover, the launch of our Digi Accounts solution has made access to bank accounts for low-income workers easier than ever before. CBD has opened 166,338 Digi accounts in 2022 compared to 117,446 Digi accounts in 2021.

CBD has approved a debt financing deal with Postpay, a leading omni-channel Buy Now, Pay Later (BPNL) provider in the Middle East. This inaugural debt financing arrangement is another example of how FinTech and traditional banks are partnering to leverage their collective experience and expertise to enhance the suite of financial products offered in the market.

CBD became the first bank in the region to offer a robo-advisory investment solution. "CBD Investr" is an innovative investment app powered by smart algorithms that actively manage investment portfolios to deliver optimal risk-adjusted performance. With a low minimum investment amount requirement of just $500, the CBD Investr app has made investing accessible to low- and medium-income workers. CBD Investr app had 22,499 customers registrations in 2022.

CBD has a strategic focus on growing its remittance and foreign exchange income. To this end, CBD entered into a new partnership with the money transfer operator "hellopaisa" to offer international remittance to bank accounts, mobile wallet top ups and cash pick up services.



Wholesale Banking:

CBD enables secure banking whenever and wherever our corporate customers need it, freeing up their valuable time to focus on their business. An efficient business online banking service is now an essential requirement for any time-starved business owner. CBD's next generation online banking service (iBusiness) addresses this need by providing a comprehensive 24/7 online business banking solution.

In 2023, CBD will implement a Customer Identity and Access Management ('CIAM') solution for our corporate customers including a Single Sign-on ('SSO') for our supply chain and "Cash Online" offerings. This will improve the performance stability with minimum risk of service outages by introducing a high availability platform and will increase the penetration of non-financial transactions through our systems.

We are enhancing our iBusiness mobile banking app to empower corporate customers to bank on the go by including 43 new digital features.

SME and Wholesale Lending:

The Small and Medium Enterprise ('SME') sector is integral to the ongoing prosperity of the UAE economy. As such, this has been a sector where we have increased our focus in 2022. CBD is onboarding 95% of our SME clients digitally through our online platform, "CBD Rise".

CBD SME has enrolled in the "SME Champions" platform for 2022. "SME Champions" is a full year platform to engage with SME companies in the UAE over business and networking events, recreational events, public relations and communications and CSR activities, spread across the year to grow business relationships with current customers and engage with new and potential customers. We are also in discussions with different government authorities such as Emirates Development Bank, Dubai SME and the Khalifa Fund in order to explore possibilities of cooperation against the credit guarantee schemes offered by them.

Voice of the Customer Program:

Our Voice of the Customer Program is designed to effectively listen to our customers so that we can capture, and address feedback received at every touchpoint and onboarding experience.

In 2022, we expanded the utilization and prominence of our Net Promoter Score ('NPS') survey. The NPS score is a measure of customer advocacy and provides CBD with an understanding of how our customers regard CBD and its services. This year, a total of 41,648 responses have been received from customers. This feedback enables us to continually improve our products and services.

Our customers are our highest priority, and the Bank has created various touchpoints for them to reach us. These channels allow our customers to inquire about products and services offered, to submit requests, to provide feedback and suggestions and if required to raise complaints.

Our Information Channels	**Our Feedback Channels**
Website – **www.cbd.ae**	Mobile Banking
Branches – **(https://www.cbd.ae/general/branch-atm-locator)**	Branches – **(https://www.cbd.ae/general/branch-atm-locator)**
Contact Center Retail customers - **+971 600 575 556** Entity customers – **+971 4 2112848** Islamic customers - **+971 600 527 223**	Contact Center Retail customers - **+971 600 575 556** Entity customers – **+971 4 2112848** Islamic customers - **+971 600 527 223**
Our Transaction Channels	Online Banking
Mobile Banking	Email – **customercare@cbd.ae**
Online Banking	Relationship Managers (where applicable)
Branches – **(https://www.cbd.ae/general/branch-atm-locator)**	/cbduae Chat with **AYSHA**, our virtual chatbot
Contact Center Retail customers - **+971 600 575 556** Entity customers – **+971 4 2112848** Islamic customers - **+971 600 527 223**	Central Bank - **www.centralbank.ae**

10 Governance

The role of the CBD Board of Directors is to protect the interests of all our stakeholders and promote the long-term sustainability of the Bank. In accordance with the Articles of Association for Commercial Bank of Dubai, the formation of the Board of Directors is governed by the laws and regulations applicable to the Bank. The Board comprises of 11 members who are elected through the General Meeting, for a term of three financial years. The formation of the Board of Directors takes into consideration the primary need to ensure that the Board and its Committees have the appropriate balance of skills, experience, knowledge of the Bank and independence of mind to enable them to discharge their respective duties and responsibilities. CBD's Board provides strategic guidance, effective monitoring of management, adequate controls and sets the tone and culture of the Bank to enhance and ensure sustainable shareholder value.

Business Continuity

Business disruption can happen at any moment and has the potential to significantly impact the ability of the Bank to serve its customers. CBD's Business Continuity Framework aims to ensure that the Bank is well prepared and has a robust recovery plan in place to deal with such difficult situations, ensuring that the organization can continue to function with as little disruption as possible.

The framework includes:

- identification of mission critical tasks;
- testing disaster recovery processes, with clear demarcation of roles and responsibilities, and;
- ensuring clear internal and external communication at the right time.

Our "Three Lines of Defense" framework remains robust. In 2022, set up our Business Risk and Governance units in PBG and WBG. We bolstered our first line of defense to ensure all our staff are more empowered and informed to identify and manage the risks inherent in their day-to-day activities. Continuous upskilling and training on risk culture and compliance of the first line of defense, including seminars, incentives and reinforcement of the risk management policies continued to be a key focus.

Governance and social elements are already incorporated into our ESG framework. In 2023 we will commence the integration of environmental elements to provide a more comprehensive sustainability focus which considers the evolving risk profile facing all enterprises in the midst of global warming and consequent climate-associated risks.

Privacy and Security

In this digital era of internet connectivity and enhanced online processing capabilities, CBD is at the forefront of making sure our customers are provided with the best protocols in safeguarding their interests against cyber threats.

CBD recognizes that digital transformation is essential in streamlining banking processes and accelerating our customers' growth. Therefore, along with the innovative products and services CBD offers, we also reinforced our commitment to protecting our customers' information online.

The information we store is protected by advanced technology and multilayered privacy safeguards appropriate to the sensitivity of the data. Some key features include:

- A framework of policies and protocols conforming to international data protection standards, both online and offline to ensure maximum security;
- Rigorous encryption and verification standards to ascertain the identity of an individual;
- Training and awareness-building among staff and employees, and
- Regular risk assessments and compliance counterchecks to keep the integrity of the security measures.

CBD has introduced a new Anti-Bribery and Corruption policy to cover all bank staff to ensure highest standards in preventing bribery and corruption. CBD introduced a new AML Transaction Monitoring System (TMS) in 2018. In 2022, CBD enhanced the TMS by optimizing existing scenarios and introducing new scenarios. This will help to detect additional AML risks in our customer base and prevent our Bank being used for criminal activity.

CBD uses a Customer Risk Scoring Tool to risk rate customers for financial crime risk purposes. In 2022, we introduced a robust new customer risk scoring tool to identify genuine high-risk customers that require enhanced due diligence. CBD also launched a new Sanctions Screening System to cover name and payment screening to enhance our ability to detect sanctions risk and identify politically exposed persons.

CBD has initiated a pan-bank "Path to Gold" project to achieve a Gold Standard in Financial Crime Compliance covering all aspects of financial crime management across the bank including Governance, Customer Due Diligence, Sanctions and transaction Monitoring.

Moreover, CBD enlists community support in keeping everyone safe from cyber threats. The Bank sends regular notices through email, SMS, and social media posts to keep the banking community, as well as our customers, up to date with the most recent threats.

Such a holistic approach to data privacy and security positions CBD as both a leader and an active player in our collective fight against internet threats and fraudulent practices.

In 2023, we will further embed ESG as part of our Enterprise Risk management Framework. Specific focus areas include:

- Updating our Wholesale Banking credit application process to capture wider ESG-related data points to better understand the nature of our customers business operations;
- Expansion of our credit risk policy to set out specific considerations regarding environmental and social risk, and
- Incorporating climate risk as part of our stress testing and Internal Capital Adequacy Assessment Process.

11 Environment

Our Environmental Responsibility

Environmental protection has long been a focus at CBD. As the UAE consciously shifts towards more diversified energy sources, this has provided CBD the opportunity to back the environmental ambitions of our customers. Some of the key projects that we have undertaken recently are listed below:

- CBD partnered with Sharaf DG Energy to offer CBD Sustainable Financing Solutions. The partnership enables customers to adopt clean energy solutions by installing Solar PV Systems for their homes from Sharaf DG Energy via a sustainable and digital financing option from CBD.

- Green product exploration – We launched discounted loans for electric and hybrid vehicles.
- Procurement framework – We have developed a vendor ESG assessment scorecard with the help of an external strategy firm to expand upon our procurement framework to ensure that, not only are we promoting local suppliers, but we are also promoting suppliers who have a demonstrable dedication towards the environment.

Water Consumption:

CBD has distributed free reusable water bottles to all the staff to encourage them to reduce using single-use plastic bottles. CBD has also installed water stations across its Head office and branch locations. This will result in an annualized reduction in usage of approximately 7,800 single-use plastic bottles. We have also lent our support to the "Dubai Can" sustainability initiative, under the patronage of His Highness Sheikh Hamdan bin Mohammed bin Rashid Al

Maktoum, wherein we strive to eliminate the usage of plastic bottles in our offices and play our part in encouraging a "refill culture".

Paper Consumption:

CBD has installed recycling bins for used paper in the CBD head-office. This paper gets collected from recycling bins and is sent for secured shredding and recycling. In 2022, CBD has recycled 34,440 kgs of paper.

Electricity Consumption:

- The Bank spent AED 104,612.00 on fuel in 2022.
- CBD and its branches had a total electricity consumption of 2,551,530 kWh in 2022.
- The bank has also changed several of its Branch signages to LED and has initiated a plan for all the remaining branches to be converted to LED in 2023.

Environmental Focus for 2023

- Sustainable Finance - We are looking forward to taking a significant step with the establishment of our Sustainable Finance Framework. The planned publication of our Sustainable Finance Framework (the "Framework") along with the future issuance of sustainable financing instruments and subsequent reporting, will not only reflect our lending activities, but will also demonstrate how we embed sustainable finance in our strategy. The Framework itself, but in particular every issuance, will serve as a valuable platform to continuously engage with investors, lenders and our stakeholders on our sustainability strategy and to demonstrate the progress in developing our portfolio. We hope to diversify our investor base and obtain useful feedback which can help us to reflect on our activities and improve our approach to sustainability. In addition, we consider the on-going work as a highly important catalyst to improve both, the understanding of sustainability matters across our organization and the integration in our core business. The Framework will allow CBD the issuance of "use-of-proceeds" – based Sustainable Financing Instruments, which include, but are not limited to Bonds, Loans, and Commercial Papers. The soon to be published Framework has been designed with the intention to reflect current best market practice. It has been designed in accordance with the Green Bond Principles ("GBP") 2021 (with June 2022 Appendix I) and the Social Bond Principles ("SBP") 2021 (with June 2022 Appendix I) as administered by the International Capital Market Association ("ICMA") and the Green Loan Principles 2021 ("GLP") and the Social Loan Principles 2021 ("SLP") as administered jointly by the Loan Syndications and Trading Association, the Loan Market Association, and the Asia Pacific Loan Market Association (together "the Principles").

- Greenhouse gas emissions – We are assessing how to baseline our scope 1 and scope 2 greenhouse gas emissions so that we can better understand our carbon footprint from our banking operations and set a course for addressing these emissions in support of the UAE’s net zero target.

2022 Corporate Governance Report

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Chairman’s Letter to Shareholders

Chairman’s Message to Shareholders on Corporate Governance

I am pleased to present the Corporate Governance Report for 2022.

As Chairman of the Board of Directors of Commercial Bank of Dubai PSC (“CBD” or the “Bank”), it is my primary responsibility to ensure that CBD has both sound corporate governance and an effective Board.

As Chairman of CBD, my responsibilities include leading the Board effectively, overseeing the corporate governance model, communicating with shareholders and ensuring that good information flows freely between the Senior Management and the Board members in a timely manner.

This report describes the governance structures, practices and policies that CBD adheres to in order to ensure the independence and integrity of governance controls for decision-making. The Bank subscribes to the principles of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, shareholders, and various communities affected by its activities.

We at the Board consider good corporate governance essential for long-term success. The Bank considers corporate governance to be a dynamic concept, with rules, systems and processes progressing in line with new insights and regulations. Therefore, the Bank does not only adhere to the Governance Regulations issued by the relevant authorities in the UAE but also to international standards for developing good corporate governance policies.

Corporate Governance Framework and its review by Independent Third Party. Since the end of 2019, we have been working diligently on revamping our complete corporate governance framework to comply with not only the Central Bank’s Regulations and Standards on Corporate Governance but also with international best practices. In 2021, the Board approved the Corporate Governance Manual and all its related annexes.

The Bank appointed Deloitte in November 2022 to review the overall Corporate Governance Framework against regulatory requirements and leading practices and to identify areas of improvement. The results of this review exercise will be reviewed and discussed by the Board early 2023. Strict follow-up will be adopted on the implementation of the approved recommendations.

Governance is now part of the Remuneration & Nomination Committee responsibilities. For an effective monitoring and overview of the corporate governance aspects, it was decided in March 2022 to review the responsibilities of the Remuneration & Nomination Committee and include corporate governance matters. The Committee shall:

- 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, its committees, and individual members.
- Establish, monitor and recommend the purpose, structure and operations of the various committees of the Board of Directors, the qualifications and criteria for membership of 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 any recommendations to the Board for the creation of additional committees or the elimination of Board committees.
- Handle 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 will assess whether there are any business or other relationship 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.

Board Effectiveness. In December 2021, the Board assessed its effectiveness, which was concluded in Q1 2022. With an objective to continuously improve Board's governance, the Bank had engaged Hawkamah as a reputed external consulting organization, which assisted in laying down parameters for the performance evaluation of Directors, Chairman, Board Level Committees and assisted in facilitating the overall evaluation process. Results of the review were shared by Hawkamah with the Board of Directors in April 2022.

Hawkamah noted throughout the board evaluation process that the board in its current composition is operating effectively and this has been reflected in the performance of the bank. The bank not only successfully navigated the challenging environment brought by the Covid-19 pandemic but was able to emerge in a strong position as well.

The findings from the survey and interviews suggest that the current Board practices are effective. The areas for improvement highlighted by the Board members largely relate to the future challenges of the Bank and how the board should respond to these challenges – particularly in the areas of technology and ESG/sustainability.

The Board evaluation identified the following areas of strength within the CBD board:

- Effective leadership - making sure that the executive leadership team is effective
- Financial health - overseeing the underlying financial health of the bank
- Managing the agenda - managing the topics to be discussed and its related information
- Inclusive discussion - getting everyone's views, opinions, and arguments
- Chairing – effective chairing of the meetings

The following areas were identified by the Board members as priority areas for improvement:

- ESG - incorporating environmental, social and governance issues into the strategic decision making of the bank
- Impact of technology - understanding how our technology is driving our strategy
- Compliance focus – continue to set the tone from the top to ensure full compliance with all applicable laws and regulations.

Approval and Development of an Effective ESG Strategy. In 2022, the Bank appointed a specialist consultancy firm to propose a clear ESG Strategy adapted to the Bank. Upon completion of phase 1, a final presentation was made to the Board Executive Committee on 20 April 2022 and the strategy was approved, including a start of phase 2 in September 2022. During the baseline assessment of CBD's ESG capabilities, gaps and points of attention were identified.

A big consultancy firm was appointed then for the implementation phase. The firm was appointed to assist the Bank in implementing and monitoring more than 15 ESG initiatives such as establishing ESG Materiality Matrix and ESG related ISO Certification. It was important to ensure full coordination between various internal stakeholders on the progress of various ESG related initiatives committed in the Bank's Sustainability Report.

It is to be noted also that outside the consultancy work explained above, CBD initiated discussions with a leading European bank on the Sustainable Finance Product Development Framework ('SFPDF') which is a project that has kicked off earlier July 2022.

Strategy Offsite Day for the Board of Directors. The Board agreed in its meeting of 27 July 2022 to have a Board Strategy offsite in the first half of October. The Strategy Day was held on 11 October 2022. Boston Consulting Group was appointed as Moderator and the Board received insights from the Economist Intelligence Unit. The Strategy Day focused on presenting the current strategic positioning to the Board, to gather insights from the Directors on the Bank's future positioning, to discuss constraints and guardrails for the strategy and to identify a handful of core strategic thrusts for further follow up and detailing.

In order to ensure successful execution of the current and future strategy, management has established a Transformation & Strategy Execution Office, which will, amongst others, be responsible for the management governance of strategic programs and the execution of the core initiatives underlying the Bank's strategy.

Directors Continuing Professional Development. In light of the varied demands being increasingly placed on the Boards of Banks in terms of governance as well as the importance of Directors' continuing professional development, the Board attended two (2) workshops on topics covering the Management of Compliance Risk and Effective Compliance Control Activities as well as a workshop on "An Effective Board and Defining the Lines Between Board and Management". A third workshop on the Risk oversight for board members in the banking sector was planned for December 2022 but then re-scheduled in January 2023. The Board approved also in 2022 the directors' development plan for 2023 which will cover the following areas:

- Internal Control Integrated Framework,
- ICAAP and Stress Testing, and
- ESG Awareness.

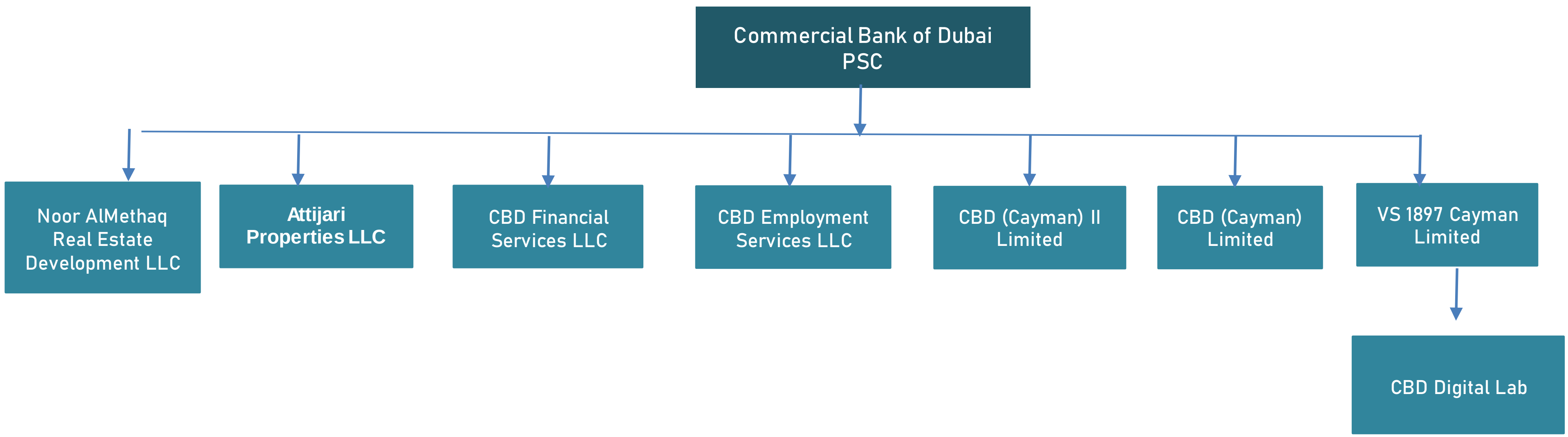
Effectiveness of Internal Control System. The Board of Directors, assisted by the Board Audit Committee is responsible for ensuring that an adequate and effective internal control system exists in the Bank and that Senior Management is maintaining and monitoring the performance of that system. More details are contained in this Report. The Board members are of the opinion that the functioning of the internal control system is effective and nothing has come to their attention that causes them to believe that the system of internal control has not been property designed or implemented or that effective and efficient internal controls have not been in place throughout the year 2022.

Finally, I want to take this opportunity to thank all my colleagues on the Board and all the staff in the Bank for their support in this special year.

We all firmly believe that strong corporate governance practices within a well-established framework will continue to provide solid foundations for sustainable growth in the future.

H.E Humaid Mohammad Al Qutami

Group Structure as of 31 December 2022



Shareholding Structure as of 31 December 2022

General Public 40.72%

Orient Insurance PJSC 8.84%

Al Futtaim Private Company LLC 10.51%

Abdulla Hamad Al Futtaim 6.95%

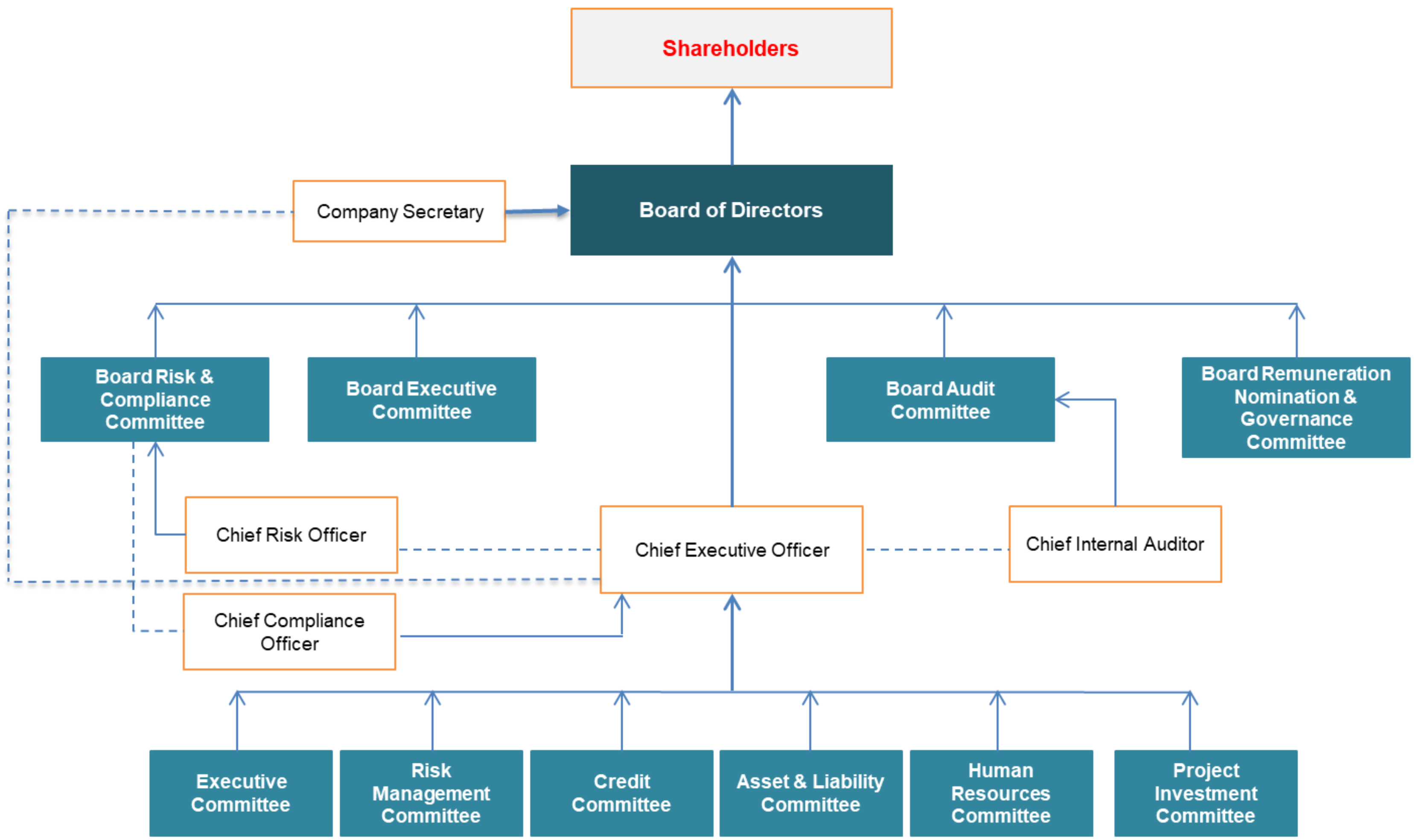
Investment Corporation of Dubai 20%

Ghobash Trading & Investment Company LLC 6.37%

Abdul Wahed Al Rostamani AWR Group LLC 6.61%

Commercial Bank of Dubai PSC

CBD Governance Organizational Structure



I. The Board of Directors

1. Board Composition, Appointment and Tenure

Commercial Bank of Dubai is a public joint stock company established under the laws of the United Arab Emirates in accordance with Federal Law by Decree No.32 of 2021 related to Commercial Companies as amended from time to time. As per Article 19 of its Articles of Association, the Bank is overseen by a Board of Directors consisting of eleven directors: a Chairman, a Vice-Chairman and nine other directors. Each director shall be elected by the shareholders and shall hold their position for a term of three years.

The current board members were elected during the General Assembly Meeting held on 17th of March 2021. The term of the current board ends with the General Assembly Meeting to be held in March 2024.

The Board is composed of five independent directors and six non-independent directors as of 31/12/2022.

2. Selection of Board Members

The Board of Directors in its meeting held on 28 July 2021 approved its new Corporate Governance Manual (the "**Manual**"). The Manual contains the Board of Directors Selection, Suitability and Diversity Policy. The purpose of the policy is to establish the fundamental principles and criteria for assessing suitability of the members of the Board of Directors, in particular the procedures covering the selection and diversity of members of the Board of Directors.

By a Board resolution adopted on 16 March 2022, the Remuneration and Nomination Committee was renamed as "Remuneration, Nomination and Governance Committee" given the different requirements of the Governance Regulations and Standards directing the Board of Directors to be responsible for multiple governance matters related to the board including selection of board members.

Therefore, the Committee is responsible for the selection processes of CBD Directors. The Committee may rely on the advice and collaboration of specialized consulting companies or any other external advisor in the selection processes.

Within the framework of the selection process for Directors, candidates to be appointed as members of the Board of Directors must meet requirements of trustworthiness, knowledge, experience, compatibility and dedication, all in accordance with applicable regulations and in line with the suitability provisions included in this Policy.

After the publication of the call for nomination to the Board membership, which should be open for a period of at least ten (10) days, the list of candidates is sent to the Central Bank of the UAE for their approval.

Once the approval from the Central Bank of the UAE is received, the Board Secretary shall call for a meeting of the Remuneration & Nomination Committee with the sole item on the agenda being the review and validation of the final shortlist of candidates.

Before the meeting, the Remuneration, Nomination and Governance Committee shall have completed a preliminary analysis of the needs of the Bank, taking into account, in particular, the knowledge and experiences already embedded within the members of the Board, in order to favor diversity in its composition.

In this regard, and whenever possible, proposals for appointment will consider a restricted list containing a shortlist of suitable candidates that takes into account, among other aspects, the diversity objectives set out in this Policy. Likewise, the Board of Directors of CBD shall have members who, taken together, have sufficient professional experience in the governance of credit institutions to ensure the effective capability of the Board of Directors to make decisions independently and autonomously for the benefit of the Bank. The minutes of the Committee meeting shall reflect the reasons behind the selection of the shortlist.

The final list is then sent to the Securities and Commodities Authority and Dubai Financial Market and published on the official website of the Bank.

In any case, in the process of selecting Directors any type of implied bias that could involve any discrimination will be avoided. In particular, the Remuneration & Nomination Committee as the body responsible for the selection process for members of CBD's Board of Directors, will endeavor to adopt measures to ensure that, to the extent possible, the objective of members of the Board of Directors is met under the terms and proportion established in the applicable laws and regulations.

During 2022, there was no change to the members of the Board of Directors. The Board through the Remuneration, Nomination and Governance Committee continue to monitor that the below areas of expertise are covered as per the targets set:

Skills and Experience	**Number of Directors**
Strategy, Financial acumen and Commercial Acumen	**11**
Banking and/or Financial Services	**9**
Technology	**3**
Leadership role in organizations of significant size / Workplace culture	**11**
Remuneration	**5**

Audit, Risk Management and Compliance	**9**
Islamic Finance	**3**

3. Board Membership

Name of the Director	Executive/ Non-Executive	Election/Nomination During Current Term	Board Member Since	End of Current Term	Independent/Non-Independent	Qualifications	Experience
H.E. Humaid Mohammad Obaid Yousuf Al Qutami	Non-Executive Chairman	Elected as Board Member on 17 March 2021 and elected as Chairman of the Board on 17 March 2021	March 2015	March 2024	Non-Independent	Master's Degree in Administration from the Western Michigan University, USA	He is the Chairman of the Federal Authority for Government Human Resources, Chairman of the Board of Trustees of Hamdan Bin Rashid Al Maktoum Award for Distinguished Academic Performance, Chairman of the Board of Trustees of the Sharjah Voluntary Work award and Chairman of the Board of Directors for Emirates Transport and Services Corporation. He was until January 2021 the Director General of Dubai Health Authority. Prior to which he has held the position of UAE's Minister of Education, the UAE Minister of Health amongst many high other profile positions.

H.E. Sultan Saeed Al Mansoori	Non-Executive Vice Chairman	Elected as Board Member on 17 March 2021	March 2021	March 2024	Non-Independent	Bachelor of Science in Engineering from Arizona State University and Diploma in Computer System Analysis from the Institute of Computer Technology, Los Angeles, California - USA	He is the Chairman of the Supreme Committee for Consumer Protection , Chairman of the Coordinating and Economic Cooperation Committee, Chairman of the National Committee for the Follow-up Program of Investment Climate, Chairman of the UAE international Investors Council, Chairman of The UAE SME Council Chairman of the insurance Authority, Chairman of the Federal Civil Aviation Authority, Chairman of The Dubai Islamic Economy Development Centre, Chairman of The Emirates Authority For Standardization & Metrology, Chairman of CSR UAE Fund Board of Trustees, Member of Education and Human Resources Council, Member of the Ministerial Committee for Legislation, Member of the National Committee on Population

							Composition, Member of the Committee of Finance and Economy
Ahmad Abdulkarim Julfar	Non-Executive	Elected as a representative of Investment Corporation of Dubai as Board Member on 17 March 2021	March 2018	March 2024	Independent	Degrees in Civil Engineering and Computer Science from the Gonzaga University in Washington, USA.	He has been Director of Emirates Integrated Telecommunications Company PJSC since March 2018. Mr. Julfar served as Group Chief Executive Officer of Etisalat from July 2011 to March 2016. He served as a Director of The National Bank of Ras Al-Khaimah (P.S.C.) until March 2018.
Abdullah Salim Obaid Al Turifi Al Shamsi	Non-Executive	Elected as Board Member on 17 March 2021	March 2018	March 2024	Non-Independent	Bachelor of Business Administration and Political Science from the UAE University and the Honorary Fellowship of the Institute of Securities and Investment (CISI) in London	He is the Chairman of the Sharjah Social Security Fund and Chairman of the Board of Trustees of the Sharjah Award for Doctoral Dissertations in Management Science. He is also member of the Board of Directors of the Business Company of the American University of Sharjah. He was the Chief Executive Officer of the Securities and Commodities Authority ("SCA") from 2003 to 2015. He was also the Chairman of Trustee of the SCA training center. He was appointed in 2007 until 2010 as the Secretary

							General of the Union of Arab Securities Commissions. He was also Board member of the Emirates Industrial Bank in 2010-2011. He is the founder and first director of the Hamriyah Industrial Free Zone, and Vice Chairman of the Board of Directors of Depa PLC in 2018
Abdulla Saif Obaid Al Hathboor	Non-Executive	Elected as Board Member on 17 March 2021	March 2008	March 2024	Non-Independent	Bachelor's degree in Accounting & Business Administration from UAE University, UAE	He is the Chairman and Managing Director of Al Hathboor Group LLC, a Board member of Best food Company and Al Jadeed/Dubai Automatic Bakeries, Emirates Institute of Banking & Finance and Dubai Municipality Rent Committee.
Abdul Wahed Mohamed Al Fahim	Non-Executive	Elected as a representative of Investment Corporation of Dubai as Board Member on 17 March 2021	March 2018	March 2024	Independent	Bachelor's degree in Business Administration Management from St. Edward's University	He is board member of EGA since 2014. He also acts as Chairman of NASDAQ Dubai Limited and serves as a board member of DUBAL Holding LLC and Emirates Development Bank Mr. Al Fahim has over 25 years of banking and finance experience with

							the Emirates NBD Group having served as a board member of both Emirates NBD Capital and Emirates NBD Asset Management. Mr. Al Fahim served as General Manager of both the Corporate and Wholesale Banking divisions of Emirates NBD Bank before his appointment as Group Deputy Chief Executive Officer of the Bank in 2009.
Ali Fardan Ali Al Fardan	Non-Executive	Elected as Board Member on 17 March 2021	March 2011	March 2024	Independent	Bachelor of Science (Major in Information System) from the Metropolitan State College, USA	Mr. Al Fardan is the Chairman of the Al Fardan Group (Dubai-UAE) and its subsidiaries with over three decades of experience in real estate and banking. Al Fardan group is a diversified conglomerate that is focused on the real estate and hospitality sector in the UAE and Europe. The group also manages a significant investment portfolio in the several sectors with a focus on the financial sector. Mr. Al Fardan is a board member of Commercial

							Bank of Dubai PJSC, Dubai Investments PJSC, Al Mal Capital PJSC, National General Insurance Co. PJSC and has been on the board or several listed entities in the past. Mr. Al Fardan is a licensed board director
Buti Saeed Mohamed Al Ghandi	Non-Executive	Elected as Board Member on 17 March 2021	March 2015	March 2024	Independent	Bachelor's Degree in Business Administration & Finance from George Washington University, USA.	He is the Managing Director of Al Ghandi Investment Co. and Chairman of the Board of Emirates Investment and Development Company PSC. He is also the Managing Director of Meethaq Employment Agency, Chancellor of the Canadian University of Dubai and Vice Chairman of Dubai World Trade Centre. He holds directorships on the Board of the Dubai Chamber of Commerce. He was member of the Board of Zakat Fund and served as a Director of Union National Bank PJSC, Oman Insurance Company, Dubai Islamic Bank and Union National Bank in Egypt

Khalid Abdulwahid Hassan Al Rostamani	Non-Executive	Elected as Board Member on 17 March 2021	March 2008	March 2024	Non-Independent	Bachelor's degree in Finance from the George Washington University, USA	He was appointed as Deputy Chairman to the Board of Commercial Bank of Dubai from 2012 to 2015. Mr. Al Rostamani is the Chairman of the A.W. Rostamani Group of Companies and a founder and Chairman of BCD Travel, Transport and Freight Forwarding. He is also a Board Director of Dubai Insurance Company (P.S.C.) and Etisalat.
Sheikh Maktoum Hasher Maktoum Juma Al Maktoum	Non-Executive	Elected as Board Member on 17 March 2021	March 2015	March 2024	Independent	Bachelor of Science degree in Business Administration and Finance from Boston University, USA	He is currently the Chief Executive Officer of Al Fajer Properties LLC. He served as an Executive Chairman of SHUAA Capital PSC from April 2012 to February 2015. He served as an Executive Chairman of Gulf Finance Corporation PJSC. He serves as the Chairman of Dubai International Holding Company. He served also as Director of SHUAA Capital PSC from February 2011 to February 2015. He is also a Founding Investor of Virgin Megastores in the UAE

Hamad Omar Al Futtaim	Non-Executive	Elected as Board Member on 17 March 2021	March 2021	March 2024	Non-Independent	Bachelor of Science in Business Administration from Northeastern University, Boston, USA	He is a Director of Business Transformation of Al Futtaim Group and a Managing Director of Al Futtaim Logistics.

4. Directors' Shareholdings as of 31/12/2022

Director	Number of Shares in CBD as at 31/12/2021	Number of Shares in CBD as at 31/12/2022	Change in Shareholding
Humaid Mohammad Obaid Yousuf Al Qutami	**Nil**	**Nil**	**Nil**
Ahmad Abdulkarim Julfar	**Nil**	**Nil**	**Nil**
Abdullah Salim Obaid Al Turifi Al Shamsi	**Nil**	**Nil**	**Nil**
Abdulla Saif Obaid Al Hathboor	**1,537,004**	**1,837,004**	**300,000**
Abdul Wahed Mohamed Al Fahim	**Nil**	**Nil**	**Nil**

Ali Fardan Ali Al Fardan	**Nil**	**Nil**	**Nil**
Buti Saeed Mohamed Al Ghandi	**Nil**	**Nil**	**Nil**
Sultan Saeed Al Mansoori	**Nil**	**Nil**	**Nil**
Khalid Abdulwahid Hassan Al Rostamani	**4,061,536**	**4,061,536**	**Nil**
Hamad Omar Al Futtaim	**Nil**	**Nil**	**Nil**
Sheikh Maktoum Hasher Maktoum Juma Al Maktoum	**136,722**	**136,722**	**Nil**

5. Management of Conflict of Interest

As per the Non-Executive Directors' Code of Conduct, a Director shall avoid or withdraw from participation in any activity or situation that places the Director in a real, potential or apparent conflict of interest relative to that Director's duties and responsibilities. A Director who:

- is a party to a contract or transaction or a proposed contract or transaction with the Bank;
- is a director or officer of, or has an interest in, any person who is a party to a contract or transaction or a proposed contract or transaction with the Bank;
- is or is likely to be affected by any action taken or proposed to be taken by the Bank; or
- is a director or an officer of, or has an interest in, any person who is or is likely to be affected by any action taken or proposed to be taken by the Bank

shall disclose to the Bank in writing or by requesting to have it entered in the minutes of a meeting of the Board, the nature and extent of such interest.

The disclosure required above shall be made as soon as the Director becomes aware of the contract, transaction or action. A Director who is required to make a disclosure on any resolution to approve the contract, transaction or action unless it relates to Directors' recommended annual remuneration, shall not communicate with other Board members about the decision, shall absent him/herself from the discussion of such operation in the Board and shall abstain from voting on such decision. Any such declaration concerning a decision of the Board shall be included in the minutes of the meeting.

For the purposes of the required disclosure, a general verbal notice to the Board by a Director, declaring that the Director is a director or officer of, or has a material interest in, a person, and is to be regarded as interested in a contract or transaction entered into with that person or an action that affects that person, is a sufficient declaration in relation to a contract or transaction with that person, or action that affects that person. Members of the Board of Directors shall also be duty bound to conduct themselves honestly and sensitively with respect to acceptance of certain functions, perquisites or assignments which could conflict with the knowledge acquired by them in the performance of their duties as Members of the Board. They shall continue to be bound by this obligation after termination of their mandate.

Members of the Board of Directors shall not allow other direct or indirect professional relationships to affect in any way the conduct of their activities for the Bank, and vice versa. Members of the Board shall declare, in writing, at the time of their appointment to the Company Secretary any other official/professional position(s) held by them. They shall also inform immediately the Company Secretary of any changes related to the declared position(s) during the term if their mandate.

If members of the Board envisage to undertake an activity which may give rise to a conflict of interest as regards his/her duties and responsibilities as a member of the Board of the Bank he/she shall inform in writing the Chairman of the Board, who shall determine after consulting the Chief Legal & Governance Officer whether accepting such position would be compatible with the Directors duties and responsibilities as a member of the Board.

The Board Secretary maintains a register of Conflict of Interest for Board members and Senior Management. In 2022, 17 cases of conflict of interest were voluntarily highlighted by the Board members during the Board or its Committees' meetings. All those directors did not participate in the decision process.

6. Responsibilities of the Board of Directors

The Board of Directors plays an integral role in the governance of the Bank and its responsibilities include approving the Bank's strategy; setting its risk appetite and risk management strategy; monitoring its financial performance; establishing the corporate governance framework; and approving the Bank's corporate values.

In discharging their duties of care, confidentiality and loyalty to the Bank, the main general responsibilities of members of the Board include, but are not limited to:

a) Overviewing the affairs of the bank and keeping up with material changes in the bank's business and the external environment as well as acting in a timely manner to protect the long-term interests of the bank;
b) Overseeing the development of and approving the bank's business objectives and strategy, and monitoring their implementation;
c) Playing a lead role in establishing the bank's corporate culture and values;
d) Overseeing implementation of the bank's governance framework and periodically reviewing it to ensure that it remains appropriate in the light of material changes to the bank's size, complexity, business strategy, markets and regulatory requirements;
e) Establishing, along with senior management, the bank's risk appetite, taking into account the competitive and regulatory landscape and the bank's long-term interests, risk exposures and ability to manage risk effectively;
f) Overseeing the bank's adherence to its risk appetite and risk limits;
g) Approving and overseeing the implementation of key policies including, but not limited to, the internal capital adequacy assessment process, policies for liquidities and compliance, and the internal control system and record management policy;
h) Requiring that the bank maintains a robust finance function responsible for accounting and financial data;
i) Approving the annual financial statements and requiring periodic independent review of critical areas of the bank;
j) Approving the selection of and overseeing the performance of senior management;
k) Overseeing the bank's approach to compensation, including monitoring and reviewing executive compensation and assessing whether it is aligned with the bank's culture, risk appetite and shareholders' interest; as well as compliance with Islamic Shari'ah rules and principles.

l) The Board is responsible for the complete supervision of the Islamic window of the bank and ensuring the adequacy of the Shari'ah governance framework to the activities and the size of the window. The Board is responsible for nominating members of the Internal Shari'ah Supervision Committee (ISSC) to the General Assembly of the Shareholders. The Board should also ensure the development, approval and implementation of internal policies related to the Islamic window and compliance with Islamic Shari'ah in coordination with ISSC.

The members of the Board of the Bank are responsible for the implementation of an effective risk management culture and internal controls across the Bank and its subsidiaries and affiliates. In order to promote a sound corporate culture, members of the Board must establish the "tone from the top" by:

a) Setting and adhering to corporate values that create expectations that all business must be conducted in a legal and ethical manner, and overseeing the adherence to such values by senior management and other employees;
b) Promoting risk awareness within a strong risk culture, conveying the Board's expectation that it does not support excessive risk-taking and that all employees are responsible for ensuring that the Bank operates within the established risk appetite and risk limits;

c) Confirming that appropriate steps have been taken to communicate throughout the Bank the corporate values, professional standards and codes of conduct approved by the Board, together with supporting policies; and
d) Confirming that employees, including senior management, are aware that appropriate disciplinary or other actions will follow unacceptable behaviors and transgressions.

Furthermore:

a) The Board approved risk governance framework must incorporate a “three lines of defence” approach including senior management of the business lines, the functions of risk management and compliance, and an independent and effective internal audit function and internal Shari’ah supervision committee.

b) The Bank’s corporate culture must recognize the critical importance of timely and frank discussion and escalation of problems to higher levels. Employees must be encouraged and must be able to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable practices. This includes communicating material concerns to the Central Bank.

c) The Board must ensure implementation of a whistleblowing policy and ensure that senior management appropriately addresses legitimate issues flagged through the whistleblowing mechanism. The Board is responsible for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals. The Board must oversee and approve how and by whom legitimate material concerns are investigated and addressed, including by an objective internal or external body, senior management, and/or by the Board itself.

d) The Board must ensure implementation of a code of conduct for all stakeholders including Board Members, employees, and suppliers. The code of conduct is intended to focus on areas of ethical risk, provide guidance to help recognizing and dealing with ethical issues, provide mechanisms to report on unethical conduct, foster a culture of honesty and accountability, deter wrongdoing and promote transparency.

e) The Board must provide oversight of senior management. It must hold members of senior management accountable for their actions and enumerate the consequences if those actions are not aligned with the Board’s expectations. This includes adhering to the Bank’s values, risk appetite and risk culture, regardless of financial gain or loss to the Bank. Oversight by the Board should include, but is not limited to:

- Monitoring that senior management’s actions are consistent with the strategic objectives and policies approved by the Board;
- Meeting regularly with senior management;
- Critically reviewing explanations and information provided by senior management;
- Setting appropriate performance and compensation standards for senior management consistent with the long-term strategic objectives and the financial soundness of the Bank;
- Assessing whether senior management’s collective knowledge and expertise remain appropriate given the nature of the business and the Bank’s risk profile; and

- Actively engaging in succession planning for the chief executive officer and ensuring that appropriate succession plans are in place for senior management positions.

The Board must ensure that Senior Management must implement, consistent with the direction given by the Board, systems, processes and controls for managing the risks to which the Bank is exposed and for complying with laws, regulations and internal policies. This includes comprehensive and independent risk management, compliance and audit functions, as well as an effective overall system of internal controls

7. Board Meetings

The Board and Committee meetings schedule and timings are established at the beginning of each year. The calendar of board and committee meetings is circulated in advance to facilitate board and committee members to plan their schedule and ensure meaningful participation in the meetings. Meetings may be re-scheduled if warranted and with the Chairman's approval.

The agenda for board meetings is prepared by the Board Secretary in liaison with the Chairman and the Chief Executive Officer. Board papers are circulated five business days in advance of a meeting.

The Board of Directors is required to consider topics that are fundamental to the direction of the bank, such as business performance, long-term planning, strategy, risk appetite and management, succession planning, and human resources.

Board members receive a regular flow of information and reports relevant to the fulfillment of their role. Board papers encompass reports from the Chief Executive, Chief Finance Officer and others on a regular and scheduled basis. Formal minutes of the different committee meetings are included in the board file and the Chairman of each committee gives an update to the board members at the beginning of each board meeting on important items discussed in the committee meeting.

In 2022, the Board of Directors held seven (7) meetings. The key business discussed at the main board meetings throughout the year is detailed below:

Board Meeting No.	Date	Main Topics
1	**9 February 2022**	• Updates on Committees meetings • 2021 financial results • Approval of AGM Agenda • Approval of statement on effectiveness of internal control system

2	**16 March 2022**	• Change of Committees Composition and Structure • Emiratization Update • Central Bank Remediation Program Update
3	**27 April 2022**	• Update on the committees' meetings • Hawkamah Board Assessment Report • Q1 Financial Results • Approval of corporate governance policies; Employees Conflict of Interest Policy, Directors Conflict of interest Policy, Personal Dealing and prohibiting Insider Trading Policy •
4	**27 July 2022**	• Update on Committees meetings • Q2 financial results • Update on Bank's strategy • Compliance Update • Emiratization Update
5	**14 September 2022**	• Update on the committees' meetings • Financial update • Corporate Governance Update • Strategy Update • Sharia Update • Board Training on Management of Compliance Risk and Effective Compliance Control Activities
6	**26 October 2022**	• Update on the committees' meeting • Q3 Financial Results • Strategy and Corporate Governance Update • Update on Central bank Remediation • Board Training on Board Effectiveness and Defining the Lines Between Board and Management
7	**14 December 2022**	• Update on the committees' meetings • CBD 2023 – 2026 Strategy • Deloitte Corporate Governance Assessment interim Report • Central Bank Remediation Program update • Emiratization Update

8. Board Meetings' Attendance

Sr. No.	Board Members	Number of Meetings Attended
1	H.E Humaid Mohammad Obaid Yousuf Al Qutami - Chairman	7/7
2	H.E Sultan Saeed Al Mansoori - Vice Chairman	5/7
3	Abdulla Saif Obaid Al Hathboor - Member	6/7
4	Abdullah Salim Obaid Al Turifi Al Shamsi - Member	7/7
5	Abdul Wahed Mohamed Al Fahim - Member	7/7
6	Ali Fardan Ali Al Fardan - Member	7/7
7	Buti Saeed Mohamed Al Ghandi - Member	7/7
8	Ahmad Abdulkarim Julfar - - Member	7/7
9	Khalid Abdulwahid Hassan Al Rostamani - Member	4/7
10	Hamad Omar Al Futtaim - Member	6/7
11	Sheikh Maktoum Hasher Maktoum Juma Al Maktoum - Member	5/7

9. Board Remuneration

According to applicable laws and Article 60 of the bank's Articles of Association, directors' remuneration shall not exceed 10% of the annual profit. As at 31 December 2022, the Bank's directors were not eligible for any bonus, long-term or other incentive schemes. Directors do not receive any pension benefits from the Bank.

CBD does not pay any sitting fees for board meetings. However, CBD does pay an amount of AED 20,000 as sitting fee per meeting per director for attendance of the different committees.

Directors' remuneration is set annually by the bank's shareholders based on a recommendation from the board. In 2021, board members received the amount of AED 19,250,000 as remuneration (excluding VAT).

Below the details of the amounts received by the Board members in April 2022 as 2021 remuneration in application of the resolution of the Annual General Meeting held in March 2022.

In 2023 (for the financial year 2022), the remuneration of the Directors will be submitted for approval by the Annual General Meeting of the shareholders.

Sr. No.	Board Members	Payment Received excluding VAT in AED
1	H.E Humaid Yousuf Al Qutami - Chairman	2,500,000
2	H.E Sultan Al Mansoori - Vice Chairman	1,675,000
3	Mr. Abdulla Saif Al Hathboor - Member	1,675,000
4	Mr. Abdullah Salim Al Turifi Al Shamsi - Member	1,675,000
5	Mr. Abdul Wahed Al Fahim - Member	1,675,000
6	Mr. Ali Fardan Ali Al Fardan - Member	1,675,000
7	Mr. Buti Saeed Al Ghandi - Member	1,675,000

8	**Mr. Ahmad Abdulkarim Julfar**	**1,675,000**
9	**Khalid Abdulwahid Hassan Al Rostamani - Member**	**1,675,000**
10	**Hamad Omar Alfuttaim - Member**	**1,675,000**
11	**Sheikh Maktoum Hasher Maktoum Juma Al Maktoum - Member**	**1,675,000**

In 2022, CBD paid to the Directors a total amount of AED 3,420,000 (VAT excluded) as Committees' sitting fees during 2022 as per the below details

Sr. No.	Board Members	Number of Committees Meetings Attended	Total Sitting Fees in AED Excluding VAT
1	**H.E Humaid Mohammad Obaid Yousuf Al Qutami - Chairman**	-	-
2	**H.E Sultan Saeed Al Mansoori- Vice Chairman**	12	240,000
3	**Abdulla Saif Obaid Al Hathboor - Member**	12	240,000
4	**Abdullah Salim Obaid Al Turifi Al Shamsi - Member**	11	220,000
5	**Abdul Wahed Mohamed Al Fahim - Member**	30	600,000

6	**Ali Fardan Ali Al Fardan - Member**	**12**	**240,000**
7	**Buti Saeed Mohamed Al Ghandi - Member**	**29**	**580,000**
8	**Ahmad Abdulkarim Julfar - Member**	**29**	**580,000**
9	**Khalid Abdulwahid Hassan Al Rostamani - Member**	**18**	**360,000**
10	**Hamad Omar Al Futtaim - Member**	**12**	**240,000**
11	**Sheikh Maktoum Hasher Maktoum Juma Al Maktoum - Member**	**6**	**120,000**

10. Board Continuing Professional Development

The Board adopted the Directors Continuing Professional Development Policy on 28 July 2021.

The purpose of the Policy is to promote long-term and sustainable development of the Bank via continuous improvement of the effectiveness of the Board of Directors. All members of the Board of the Bank are encouraged to partake in professional development. Continuing professional development of the Directors is the maintenance, enhancement and continuous improvement of their knowledge, skills and abilities. The objective is to ensure that Directors are equipped to give effective oversight in a dynamic and changing environment.

Members of the Board of Directors should have the necessary knowledge and experience, but cannot be experts in all fields. Therefore, there arises the necessity to expand and advance the knowledge of members of the Board of Directors. The Board of Directors Selection, Suitability and Diversity Policy established the Directors' Abilities Matrix and the Board of Directors should ensure that its members receive the requisite continuing development in the areas specified in the matrix. The Remuneration & Nomination Committee is responsible for annually reviewing the requisite skills and characteristics of its members in compliance with the Directors' Abilities Matrix.

The goals of the Policy are to:

- Improve the effectiveness of the Board of Directors via implementation of a systematic and structured mechanism for the development of skills and qualifications of members of the Board of Directors;
- Increase the level of understanding by members of the Board of Directors of the Bank's operations and related risks; and
- Improve the culture of sound business management by keeping the Board of Directors updated on the most recent developments in the different fields composing the Directors' Abilities Matrix.

Given the importance of Corporate Governance and Compliance matters, in 2022 the Board attended two sessions on these specific topics as per the below table:

Board Continuing Professional Development Schedule for 2022				
Date	**Topic**	**Vendor Name**	**Time**	**Delivery Method**
September 14th 2022	Management of Compliance Risk and Effective Control Activities	CCL Academy	10 a.m. – 11 a.m.	Online
26th October 2022	An Effective Board and Defining the Lines Between Board and management	Hawkamah Institute	10 a.m. – 11 a.m.	Online

11. Board Performance Evaluation

Board performance evaluations provide the Board with an opportunity for consideration, reflection and discussion of its performance, the performance of its committees, and that of the Chair and individual directors. The Board of Directors in its meeting held on 28 July 2021 approved the Board Performance Evaluation Policy.

The purpose of these evaluations is not only to review the effectiveness of individual directors and the Board but also to identify gaps in skills, experience and expertise that would need to be filled in order to promote Board effectiveness and satisfy fit and proper requirements. The Policy sets out how these evaluations will be conducted.

The Performance evaluation covers following components of the Board:

- The Board as a whole;
- The Chair;
- Individual directors; and
- Board committees.

The evaluation process involves identification of areas for evaluation; formulating a questionnaire on the areas for evaluation; obtaining responses of individual directors to the questionnaire on a rating scale; conducting interviews with individual directors and analyzing the responses to the questionnaire and interviews; and reporting the findings resulting from the analysis to the full Board. The Board discusses the content of the report, develops an action plan and periodically reviews the progress of implementation as well.

In April 2022, Hawkamah Institute provided the findings of their evaluation of CBD Board. Overall, the assessment indicated that the Board in its current composition have performed far better than before, and this has been reflected in the performance of the Bank. The findings also suggested that the current board practices are effective. Four areas of strength were identified within CBD Board; and these are:

(a) Effective leadership
(b) Financial health
(c) Managing the Agenda
(d) Inclusive discussion

The assessment also identified areas for improvement as being (a) ESG (incorporating environmental, social and governance issues into the strategic decision making of the Bank, (b) Impact of Technology (understanding how technology is driving the strategy), and (c) Compliance focus. The assessment report put forward a number of recommendations for the Board to consider for areas where it can achieve more success.

II. <u>Board Committees</u>

1. Presentation

At the start of 2022, the board had four standing Committees:

- Board Executive Committee;
- Risk & Compliance Committee;
- Audit Committee; and
- Remuneration & Nomination and Governance Committee.

2. Committees' Composition

Committee	Member	Position
Board Executive Committee	H.E Sultan Al Mansoori	Chairman
	Mr. Buti Al Ghandi	Vice Chairman
	Mr. Abdulwahed Al Fahim	Member
	Mr. Ahmad Julfar	Member
	Mr. Khalid Al Rostamani	Member
Audit Committee	Sheikh Maktoum Hasher Al Maktoum	Chairman
	Mr. Ali Al Fardan	Vice Chairman
	Mr. Abdulla Al Turifi	Member
	Mr. Hamad Al Futtaim	Member
Risk & Compliance Committee	Mr. Abdulwahed Al Fahim	Chairman
	Mr. Abdulla Al Turifi	Vice Chairman
	Mr. Abdulla Al Hathboor	Member
	Mr. Hamad Al Futtaim	Member
Nomination, Remuneration & Governance Committee	Mr. Ahmed Julfar	Chairman
	Mr. Abdulla Al Hathboor	Vice Chairman
	Mr. Buti Al Ghandi	Member
	Mr. Ali Al Fardan	Member

3. Committees' Attendance

Sr. No.	Board Members	Board Executive Committee Meetings Attended	Audit Committee Meetings Attended	Remuneration & Nomination Committee Meetings Attended	Risk & Compliance Committee Meetings Attended
1	H.E Humaid Mohammad Obaid Yousuf Al Qutami - Chairman	-	-	-	-
2	H.E Sultan Saeed Al Mansoori - Vice Chairman	12/25	-	-	-
3	Abdulla Saif Obaid Al Hathboor - Member	-	-	6/6	6/6
4	Abdullah Salim Obaid Al Turifi Al Shamsi - Member	-	6/6	-	5/6
5	Abdul Wahed Mohamed Al Fahim - Member	24/25	-	-	6/6
6	Ali Fardan Ali Al Fardan - Member	-	6/6	6/6	-
7	Buti Saeed Mohamed Al Ghandi - Member	24/25	3/6	2/6	-
8	Ahmad Abdulkarim Julfar - - Member	23/25	-	6/6	-
9	Khalid Abdulwahid Hassan Al Rostamani - Member	18/25	-	-	-
10	Hamad Omar Al Futtaim - Member	-	3/6	3/6	6/6
11	Sheikh Maktoum Hasher Maktoum Juma Al Maktoum - Member	-	6/6	-	-

4. Statement from the Board Executive Committee

Dear Shareholders,

We are pleased to present our Board Executive Committee Report for 2022. With the Bank growing steadily, and witnessing a transformation in IT and wholesale banking, a focus on digitalization, operational excellence, regulatory technology and core infrastructure improvement, the Committee has had diverse meeting agendas throughout the year.

The Board Executive Committee is delegated by the Board to:

- Oversee the effectiveness of the Bank's investment strategy, its implementation and explore with Management growth opportunities for the Bank and expanding its activities;
- Oversee CBD's progress of technology transformation; implementation of material IT and transformation projects and overall IT and digital strategies;
- Review and approve credit facilities and investments above management limits;
- Monitor operating and financial performance against set targets;
- Approve product programmes for those credit products approved on a programmatic basis;
- Monitor material recovery cases and approve related restructurings or financial settlements;
- Oversee the Bank's approach to the most material sectorial and individual credit exposures in its portfolio;
- Review the quality of the Bank's investment portfolio and the trends affecting that portfolio; and

The Chairman of the Board Risk & Compliance Committee and the Chairman of the Board Remuneration, Nomination and Governance Committee are both members of the 'BEC' Committee. This composition has been created to ensure effective governance in place.

2022 has undoubtedly been a very busy year as the Committee held a total of 25 meetings.

As in previous years, the Committee continued its efforts towards ensuring that loans and investments approved are aligned with the Bank's business goals and overall risk appetite. In addition to approving facilities and investments, the Committee also carried various other tasks and responsibilities such as:

- Reviewing and approving the Asset Backed Lending Program
- Monitoring the limits for financial institutions and some specific countries;
- Periodically conducting through review of the restructuring and recovery portfolio with focus on progress in multiple litigations and recoveries;
- Following up on CB UAE Baseline Examination progress and closure of findings;

- Reviewing and approving the sale of properties owned by the Bank;
- Reviewing and approving proposals of write-offs of non-performing loans

Overall, the Board Executive Committee in collaboration with the other Committees have contributed effectively in implementing the Bank's growth strategy. In 2023, the Committee will continue its efforts towards fostering a culture of performance and sustainable growth, backing the ambitions of our customers and delivering on our commitments to our stakeholders.

5. Statement from the Risk & Compliance Committee

Dear Shareholders,

We are pleased to present our Risk and Compliance Committee Report for 2022.

The Board Risk and Compliance Committee is responsible for the oversight and monitoring of the Bank's financial and non-financial risk activities and the soundness of its overall enterprise risk management framework, its application and effectiveness. The Committee is also responsible for setting and monitoring the Bank's risk appetite and monitoring performance against the same. Additionally, the Committee also provides advice to the Board in relation to current and projected performance against risk appetite.

In light of recent regulatory requirements, the Board Risk and Compliance Committee responsibilities have been expanded in 2022 to also include oversight of Sharia Risk. This includes supervising and monitoring the management of Sharia non-compliance risk, setting controls in relation to each type of risk and ensuring rigorous and diligent oversight policy, and procedures are in place.

In 2022, the Committee held 6 meetings. Some of the key items on the agenda of these meetings covered the following:

- Review and challenge of management identified top and emerging risks and mitigating actions. These included risks relating to global inflationary pressures and consequent change in interest rate risk environment and the evolving regulatory landscape.
- Received updates on and provided oversight of the Bank's stress testing activity, including mandating a sector-specific review and overseeing developments in the enterprise-wide stress testing framework.
- Reviewed, challenged and approved new and enhanced risk policies across a range of topics including with regard to model risk management, ICAAP and capital management.
- Received updates on cyber security and business continuity risks and controls including an assessment of compliance with NESA requirements.

- Reviewed and supported enhancements to the Bank's operational risk management framework.
- Regular review of credit portfolio exposures and other risks against limits and appetite.
- Analyzed a number of operational and fraud risk incidents including the root causes and mitigating actions undertaken by management;
- Provided oversight of the development and effectiveness of the Bank's management of compliance related activities particularly in regard to enhancing AML and Sanctions capabilities. The committee oversaw the Central Bank remediation programme and the significant investment in new technology solutions and upgrades to policy and procedures in line with new Central Bank regulations.
- Reviewed the bank's strategy towards certain concentrations of credit risk.

Overall risk management was well managed relative to the Bank's risk appetite metrics. Where deviations were noted these were being addressed by Management with appropriate mitigating activity and remediation plans.

6. Statement from the Audit Committee

Dear Shareholders,

We are pleased to present our Audit Committee Report for 2022.

The primary role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities in areas such as the integrity of financial reporting, the effectiveness of the risk management framework and the system of internal controls. We are also responsible for assessing the quality of the audits performed by, and the independence and objectivity of, the external auditor. The Audit Committee also makes a recommendation to the Board on the appointment or reappointment of the external auditor. In addition, we oversee the work and quality of the Internal Audit function.

The Audit Committee held five meetings in 2022, during which the Committee:

- Exercised oversight on the performance, effectiveness and activities of the Bank's Internal Audit function (and separately, the performance of the Chief Internal Audit Officer) and reviewed updates to its audit plan, staffing and audit charter taking into consideration the UAE Central Bank's regulations on Internal Controls, Compliance and Internal Audit;
- Evaluated the external auditors' qualifications, performance, independence and objectivity, and reviewed the scope of work proposed by the external auditors for 2022;
- Reviewed the Bank's quarterly and annual audited financial statements;
- Reviewed and ensured that appropriate actions have been taken in relation to audit and review observations raised by the internal and external auditors, the UAE Central Bank, the Financial Audit Authority and other regulators;

- Received and considered Internal Audit's opinion statements on governance, risk and control.

In addition, the Committee continued to assess CBD's implementation of IFRS 9. The Committee regularly met with the Bank's senior management and external auditors to ensure that the Bank's key processes, methodologies, critical accounting judgements, and financial disclosures remained in compliance with IFRS standards, and to ensure that any subjective judgments had been made appropriately.

The Committee met with the Chief Internal Audit Officer, without the presence of the Bank's management to discuss key issues arising. We received confirmation from the Bank's Internal Audit function, and external auditors, that the Bank's internal controls were assessed throughout the year and found to be operating effectively. In addition, Committee members attended meetings of the Board Risk & Compliance Committee and Board Executive Committee to ensure an adequate flow of information between these Committees. I also personally liaised with the Chair of the Board Risk & Compliance Committee to discuss key matters during the year.

The Committee is pleased with the continued enhancement of the Bank's three lines of defense, with strong progress being made across all lines.

Looking forward, the Board Audit Committee's schedule includes five meetings in 2023, which will focus on the integrity of CBD's financial statements, IFRS 9 adherence, assessment and oversight of the internal and external auditors, as well as ensuring the 2023 Internal Audit plan is reflective of current and emerging risks.

7. Statement from the Remuneration, Nomination and Governance Committee

Dear Shareholders,

We are pleased to present on behalf of the members of the Remuneration, Nomination and Governance Committee our Report for 2022.

The principal purpose of the Remuneration, Nomination and Governance Committee (REMCO) is two-fold: to support and drive sustainable performance over the long-term and to be the custodian of the culture of the Bank to make sure that CBD's values of Collaboration, Ownership, Delivery and Excellence (CODE) are embedded into our ways of working. Recognizing our people for their performance is a key element of our reward strategy and helps to drive ongoing engagement, which is critically important for the delivery of our strategic agenda. To this end, the Committee continued its focus 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 monitored the efficacy of our organizational structures, the engagement of our employees and the development of our workforce, with a particular focus on the ongoing growth of our UAE Nationals and the enhancement of core skills for the Banks – Credit, Digital and Leadership & Management. Emiratization remained at the forefront of the Committees priorities, implementing the changes to CB UAE targets focused on placing UAE Nationals into critical positions as well as the introduction of MOHRE targets across the Private sector.

Given the increased regulatory landscape impacting the Banking sector, the scope of RemCo was expanded to reflect accountability for the development and recommendation to the main Board of Directors for Corporate Governance principles to keep abreast of any regulatory requirements.

The Remuneration, Nomination and Governance Committee is responsible for setting the overarching principles, parameters and governance of CBD's remuneration framework for all employees, and the remuneration of the Management Executive Committee and other senior employees. The Committee met seven times in 2022 and covered the following matters:

- Monitored Emiratization activities against the Central Bank points target and MOHRE targets and made recommendations on the Bank's Emiratization strategy;
- Reviewed plans for UAEN development including an increased learning spend;
- Reviewed the activities and action plans for employee engagement in 2022
- Monitored the efficacy of organizational structures;
- Supervised execution of the Bank's Reward Strategy with a specific focus on merit-based adjustments to fixed pay and incentive awards for variable performance bonus;
- Reviewed and assessed the Bank's variable performance bonus scheme for the year through business and departmental results;
- Considered the performance evaluation and variable bonus of the Chief Executive Officer and all members of Senior Management;
- Reviewed the Bank's succession and talent management plans;
- Reviewed Learning & Development activities;
- Reviewed headcount and the management of staff costs;
- Received an update on employees of the Bank recorded in the Central Bank's Persona Non Grata system
- Monitored the progress of key initiatives in HR aimed at driving culture change including enhancements to well-being activities and communicating consistently in line with the Banks revised Customer Promise – Backing Your Ambitions
- Received regular updates from the Head of Human Resources and the team;
- Reviewed key HR Policy & HR program changes

During the year, significant time was spent by the Committee on ensuring that the Bank's ambition to maintain a high-performance culture is realized. This included:

1. An in-depth review of balanced scorecards for goal setting and performance achievement, as these support the performance and reward assessments with reference to clear and relevant objectives, which are set under four categories: Financial, People, Customer and Change Management / Strategic Initiatives. Whilst the achievement of financial objectives is very important, the other objectives relating to risk mitigation and controls, customer development and the productivity of the human capital are key to the performance and sustainability of the Bank over the short and medium term
2. A review of key changes to the Bank's organization design and succession
3. An evaluation of reward plans within the approved strategy to make sure they are competitive in relation to comparable organizations in the market in which the Bank operates. As a result, a compensation benchmarking study was approved and is underway

The Bank's reward strategy is continually assessed against the following five 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

The Committee also spent considerable time on the implementation of the Central Bank Corporate Governance Regulations and Standards for the banking sector which seek to integrate risk management with reward:

1. The Chief Risk Officer presented the risk appetite framework as important input into the Committee's deliberations with regards to setting the bonus pool for 2022
2. The Committee reviewed and approved the criteria to identify those roles than can materially impact the risk profile of the Bank

The Committee provided input for the development of the new remuneration policies to ensure that they are aligned with both, the new regulatory requirements and the interest of shareholders.

III. Statement on Effectiveness of Internal Control System and Compliance with the Regulations of the Central Bank of the UAE

1. Responsibility.

The Board of Directors, assisted by the Audit Committee is responsible for ensuring that an adequate and effective internal control system exists in the Bank and that Senior Management is maintaining and monitoring the performance of that system. An internal control system includes the policies, procedures and processes, designed under the supervision of the Board to achieve the strategic objectives of the Bank.

The Board acknowledges its overall responsibility in establishing a sound internal control system as well as reviewing its adequacy and effectiveness. A leading principle for the Board is that the internal control system is designed to manage the Bank's risks within the approved acceptable risk appetite, rather than to eliminate the risk to achieve the business goals and objectives. The Board can therefore provide reasonable, rather than absolute assurance against material misstatement, fraud or loss.

Management is responsible for the appropriate design and functioning of the internal control system, while Risk Management, Internal Audit, Compliance and other internal control departments are responsible for the continuous monitoring and evaluation of the system. The external auditors are responsible for determining the adequacy of the system of internal controls to decide on the level of reliance they can place on the effectiveness of the Bank's internal controls and to design their audit procedures. However, internal controls systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies and procedures.

All employees are ultimately responsible for operating and maintaining an efficient internal control system at their respective levels. Concerted and integrated efforts by all functions of the Bank improves the control environment at grass root level through continuous reviewing and streamlining of procedures, to prevent and rectify any control deficiencies. Each function, under the supervision of executive management, is responsible to oversee the rectification of control deficiencies identified by internal and external auditors.

2. Key Components of Internal Control System.

The Bank's key components of internal control system are as follows:

a. Integrity and Ethical Values

- A Code of Conduct policy sets out the principles to guide employees' conduct to the highest standards of personal and corporate integrity. The code covers areas such as conflict of interest, use of company assets, confidentiality of proprietary information and the acceptance of gifts.

b. **Authority and Responsibility**

- The Board establishes the vision and strategic objectives of the Bank and is responsible for leading and directing the Bank towards achieving its strategic goals and protecting long-term shareholders' values. The Board retains full and effective control of the Bank's strategic plans, overseeing the conduct of the Bank's businesses, setting policies, implementing, reviewing and maintaining an appropriate system of risk, control and compliance management, and ensuring the adequacy and integrity of the Bank's system of internal control. The Board is also responsible for ensuring financial integrity, setting the Bank's risk appetite, reviewing and approving material transactions, related party transactions, capital financing, succession planning, and for the execution of stakeholders' communications.

- The Board delegates to the Chief Executive Officer ("CEO"), the authority and powers of executive management within defined levels of authority. The CEO may delegate aspects of his authority and powers but remains accountable to the Board for the Bank's performance and is required to report regularly to the Board on the progress of the Bank's business units and operations. Delegation of responsibilities and accountability by the CEO further down the structure of the Bank is recorded via respective committee structures, organizational charts and authority matrices.

- Board committees which are guided by respective Terms of Reference are set up to fulfil certain responsibilities delegated by the Board. These Committees assist the Board in promoting governance and accountability as well as overseeing internal controls.

c. Organization Structure

- An operational structure and organizational chart exists which defines the lines of responsibility and delegation of authority together with a hierarchical structure of reporting and accountability.

- The authority matrix defines the decision areas and the persons authorized to approve any expenditure/commitment. Delegated authority carries with it the obligation to exercise sound judgement, good business sense and accountability.

d. Frameworks, Policies and Procedures

- Systems and procedures have been designed to ensure effective and efficient operations, safeguarding assets against unauthorized use or disposition, maintaining proper account records, providing reliable financial information used within the business or for publication, compliance with all applicable laws and regulations, and for monitoring internal policies in relation to business performance.

- Systems and procedures are in place to identify, control, monitor, and report the major risks the Bank is exposed to including, but not limited to, credit, market, liquidity, operational, and fraud risks. Exposure to these risks is monitored by respective Management Committees. These exposures are also monitored by the Board Executive Committee and the Board Risk and Compliance Committee.

e. Planning, Monitoring and Reporting

- An annual exercise involving all business units is conducted to prepare a comprehensive budget and business plan, which includes development of business strategies and the establishment of key performance indicators, against which the overall performance of the Bank can be measured and evaluated.

- Furthermore, a review of key business variables and the monitoring of the achievements of the Bank's performance is completed by the Board on a quarterly basis.

f. Internal Audit

- The Internal Audit department, independent from line management, includes the assessment of the design and operating effectiveness of the internal control system across the Bank, as well as to provide reasonable assurance as to whether management has implemented and complied with prescribed policies and procedures. The Internal Audit department follows a risk-based audit plan, which is approved by the Board Audit Committee. All significant and material findings from Internal Audit assessments are reported to the Board Audit Committee. The Board Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interests of the Bank. The Operational Risk Management and Compliance functions also monitor the control environment, during their respective reviews, in close coordination with each other.

Internal Audit provides the Board Audit Committee at the end of each year with an annual opinion of the internal control environment. The view is based on audits completed as part of the audit plan. Twelve audit reports were issued in 2022. To help measure, assess and improve risk awareness across the Bank, Internal Audit has introduced a secondary rating (Management Approach to Risk Control) in audit reports. The aim of this exercise is to continue to improve risk awareness and effective self-identification of key risks in the respective divisions; and where findings have been self-identified, robust action plans, timelines for remediation and evidence of formal escalation exist.

g. Risk Management

- The Bank has implemented a risk management framework to guide the implementation of a consistent risk management practice by both the Board and the management. It recognizes that risks are inherent in businesses and manages them within the context of risk as an opportunity, uncertainty or hazard.
- The framework provides guidelines on the risk governance, risk management process, risk reporting and generic tools to be used by the Bank. The design of the risk governance structure therein is premised on the three (3) lines of defense concept with clear functional responsibilities and accountabilities for the management of risk.
- To ensure effective implementation of the three lines of defense the Chief Risk Officer role is segregated from the Chief Credit Officer. Further, first line risk and control owners are required to conduct risk and control self-assessments and have primary ownership of their risks and controls. Second line functions, particularly operational risk, provide challenge and assurance that risks identified are comprehensive and that mitigations and controls are effective and plans put in place to rectify any shortcomings.
- Further, the second line ensures that, when operational risk incidents occur, a detailed root cause analysis is conducted and appropriate remedial actions are assigned to appropriate stakeholders. These actions are then monitored to completion by the operational risk management function.

h. Compliance Management

- The Compliance Department has oversight for the management of Financial Crime and Regulatory Risk throughout the Bank. A Financial Crime Risk Assessment (FCRA) is completed on an annual basis to evaluate the inherent risks faced by the bank, the effectiveness of the controls and finally the residual risk across the different businesses.
- Actions to improve the effectiveness of the control environment are tracked through the Risk Control Self-Assessment (CRSA) and a gap analysis is performed on each Regulation to track and close any actions to address non-compliance to the Regulations.
- The Compliance department has developed a range of Key Performance Indicators which are presented to the Board Risk and Compliance Committee on a regular basis.

i. Business Continuity Management

- A dedicated Business Continuity function in the Risk Division manages the Bank's Business Continuity Risks. The department maintains extensive Business Continuity and Disaster Recovery plans, and manages the testing of those plans.

- Crisis management, and communication policies and procedures guide the handling of external communications in the event of any crisis/disaster.

j. Insurance

- An insurance program is in place to mitigate financial loss resulting from fraud, property damage, business interruption and general liability. Annually reviewed, this program is aligned to the risk profile of the Bank.

k. Whistle-Blowing

- A Whistleblower Policy provides the channels to report wrongdoings by employees and/or other stakeholders whilst ensuring the integrity of the process and protecting the rights of informants. The implementation of this policy enables the Bank to address such concerns that may adversely affect the reputation and interests of the Group more effectively.

3. Conclusion

By considering the factors in the preceding paragraphs, the control environment in place, the yearly reviews of its effectiveness and the confirmation made by Management, the Audit Committee and the Board are of the opinion that the functioning of the internal control system, after identifying the gaps and taking the necessary actions required, is effective and nothing has come to their attention in 2022 that causes them to believe that the system of internal controls has not been properly designed or implemented or that effective and efficient internal controls have not been in place throughout the year 2022. Furthermore, it is in the Board's views that the internal policies required to ensure compliance with the Central Bank's Regulations and Standards on Corporate Governance, Risk Management, Internal Controls, Compliance, Internal Audit, Financial Reporting, External Audit and Outsourcing have been implemented and reviewed for adequacy by the Board through its committees within the last year. For gaps that has been identified, measures were taken to ensure continuous compliance.

The Management with on-going guidance and rigorous oversight by the Board continues to strive to further design and embed efficient controls across the Bank's different functions and activities. Looking back, the Board has confidence that the year 2022 witnessed additional efforts invested in achieving higher levels of compliance with regulatory requirements.

H.E Humaid Al Qutami.

Chairman of the Board of Directors

IV. **Related Party Transactions.**

The Board of Directors recognizes that transactions between and among related parties may create financial, commercial and economic benefits to individuals, institutions and to the entire group to which the Bank belongs. They can present potential or actual conflicts of interest and may raise questions on the alignment of such transactions with the best interest of the Bank and its stakeholders.

In this regard, as required by existing regulations for related party transactions ("RPT" or "Related Party Transaction"), the Bank, its Board, Senior Management, all officers and staff including those of its subsidiaries and affiliates shall ensure that RPTs are done on an arm's length basis and that the appropriate oversight and implementation of an effective control system for the management of exposures is in place.

Therefore, the Bank's Board of Directors, Senior Management, officers and staff, including concerned personnel in the subsidiaries and affiliates are mandated to comply with regulations and the Policy on Related Party Transactions and shall not allow RPTs that may lead to abuses or may cause disadvantages to the Bank, its depositors, creditors, clients, and other stakeholders.

The Board approved during its meeting held on 28 July 2021 the Policy on Related Party Transactions. The objective of the Policy is to establish transparency and determine the materiality in the dealing of the Bank with its related parties, prevent any conflict of interest in the implementation of RPTs and ensure reporting, disclosure and compliance with the applicable legal and regulatory framework. The Policy contains the pre-approved Related Party Transactions and those requiring an approval from the Board or any of its Committees.

In determining whether to approve or decline a Related Party Transaction submitted to the Board or any of its Committees, the Directors shall take into account, among other factors it deems appropriate:

(i) whether the Related Party Transaction is entered into on terms no less favorable to the Bank than terms generally available to an unaffiliated third-party under the same or similar circumstances;

(ii) the results of an appraisal, if any; whether there was a bidding process and the results thereof; review of the valuation methodology used and alternative approaches to valuation of the transaction; and the extent of the Related Party's interest in the transaction.

Directors will review the following information when assessing a Related Party Transaction:

- The terms of such transaction;
- The Related Party's interest in the transaction;
- The purpose and timing of the transaction;
- Whether the Bank is a party to the transaction, and if not, the nature of the Bank's participation in the transaction;
- When the transaction involves the sale of an asset, a description of the asset, including date acquired and costs basis;
- Information concerning potential counterparties in the transaction;
- The approximate value of the transaction and the approximate value of the Related Person's interest in the transaction;
- Description of any provisions or limitations imposed as a result of entering into the proposed transaction;

- Whether the proposed transaction includes any potential reputational risks that may arise as a result of, or in connection with the proposed transaction; and
- Any other relevant information regarding the transaction.

Individuals benefiting from a Related Party Transaction and/or persons related to such individuals should not take part in the process of granting or managing the transaction.

The Bank adopted an identification, assessment, approval and disclosure procedure for transactions between the Bank and its Related Parties which is governed by and should be read in conjunction with the Policy on Related Party Transactions. The Board Secretary maintains a Related Parties Register which is updated on a regular basis. The Procedure sets out the process of identifying, assessing, approving, processing and tracking RPTs.

For details on Related Party Transactions completed in 2022, please refer to the Financial Statements Note 33 and the below table:

	Directors and key management personnel		Government related parties		Other related parties	
	2022	2021	2022	2021	2022	2021
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Due from banks	-	-	**73,460**	99,685	-	-
Loans and advances and Islamic financing	**128,849**	150,208	**1,473,374**	1,482,351	**2,112,026**	2,427,352
Investment securities, net	-	-	**441,243**	565,379	-	-
Bankers acceptances	-	-	**94,765**	-	**4,909**	5,721
Letters of credit	-	-	-	-	**149,107**	4,319
Letters of guarantee	-	-	**433,103**	79,778	**119,765**	24,576
Undrawn commitments to extend credit	**37,168**	11,001	**539,198**	79,882	**417,566**	354,037
Due to banks	-	-	**59,576**	459,125	-	-
Customer deposits and Islamic customer deposits	**63,382**	114,443	**4,116,685**	6,000,409	**249,922**	491,068
Interest income and commission income	**6,513**	6,458	**66,169**	39,924	**126,553**	79,041
Interest expense	**363**	216	**88,569**	44,405	**5,937**	3,173
Dividend from an associate	-	-	-	-	**7,984**	3,992

V. Incentive and Compensation Policy

1. General Principles.

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.

- **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.

2. Disclosure on Discretionary Annual Performance Bonus

Following Governance Regulations for Banks, the Remuneration, Nomination and Governance Committee has approved the increase in the Variable to Fixed Pay ratio from 100% to 150% for 2022.

In 2022, the Bank is in compliance with the Corporate Governance Regulations on compensation and the annual individual bonus for Senior Management and Material Risk Takers (as defined in the Governance Regulations) for the year 2022 and to be paid in February 2023 has not exceeded 150% of their Fixed Pay or their Total Compensation.

The Discretionary Annual Performance Bonus for the CEO and other members of the Senior Management is approved by the Remuneration and Nomination Committee. As per the current Committee's directions, the annual bonus pool for the Bank shall not exceed 5% of the annual net profit.

3. Disclosure on Long Term Incentive Plan.

In February 2021, the Remuneration and Nomination Committee approved a Long Term Incentive Plan (LTIP) for the CEO and a selective number of senior employees with the following benefits expected as a result:

- Alignment of total compensation with three-year strategic cycle (2021-2023) of the Bank; and
- Alignment of Senior Management total compensation with long-term interests of shareholders.

The performance measures include a combination of cumulative 3 year net profit and 3 year operating income. The performance threshold includes a minimum achievement of at least 90% of the performance target over the 3 year performance period for the plan to be activated.

VI. Islamic Banking Governance

CBD offers sharia-compliant financial solutions to our retail and corporate clients under the Islamic window branded as CBD Al Islami.

CBD Al Islami is regulated by Central Bank Higher Sharia Authority (HSA) and all its business, activities, products, services, contracts, documents and code of conducts are supervised by the bank internal sharia supervision committee (ISSC). This committee is independent, appointed by the general assembly of the bank based on board of director nomination for a term of three years and has the ultimate authority within CBD regarding all sharia related matters.

Sharia internal governance is established based on a 'three lines of defense' approach that are independent from each other as set out in the standards and regulations issued by the central bank of the UAE. While business acts as the first line of defense and managed by head of Islamic banking, an independent and separate internal sharia control department headed by the head of internal sharia control is the second line of defense, and it implements and oversees the sharia governance at CBD.

A separate and independent internal sharia audit department headed by the Head of Internal Sharia Audit, being the third line of defense, undertakes the sharia review and audit of the Islamic products and services offered by CBD Al Islami.

To ensure complete independence from business, Heads of Internal Sharia Control and Internal Sharia Audit report to the Board or its committees in relation to promotion, bonus, performance appraisal and removal

Islamic banking maintains a separate set of financial records to ensure that the accounts for the Islamic business are completely segregated from CBD's conventional accounts

The ISSC meets at least four times a year and comprises of the following respected Sharia scholars:

Sheikh Dr. Mohammed Abdul Rahim Sultan Al Olama - Chairman

Sheikh Dr. Al Olama is a member of the Grand Islamic Scholars Body in Dubai, and an acknowledged expert in Islamic finance.

Sheikh Dr. Al Olama is also the head of the Fatwa Committee of the Zakat Funds in the UAE. He currently serves on a number of Sharia boards representing Islamic financial institutions and Takaful companies.

He has written extensively on modern Islamic finance and has presented numerous research papers at various international conferences. Sheikh Dr. Al Olama holds a PhD in Comparative Islamic Law from Umm Al Qurra University in Mecca, Kingdom of Saudi Arabia

Sheikh Dr. Ahmad Abdul Aziz Al Haddad - Member

Sheikh Dr. Ahmad is a Sharia scholar from the UAE who serves as the head of Dubai's fatwa department, head of Central Bank Higher Sharia Authority (HSA) and he is also chief Sharia advisor with over 20 years of experience in research and teaching at colleges, mosques, and Islamic forums.

Sheikh Moosa Tariq Khoory

Sheikh Moosa Tariq Khoory is currently a member of Multiple Internal Sharia Supervision Committees within UAE. Mr. Khoory holds a Master's degree in Islamic Jurisprudence and its Foundations and a Bachelor degree in Sharia and Islamic Studies, specializing in Jurisprudence and its Foundations from the University of Sharjah.

The ISSC shall present its 2022 report (appended below) to the shareholders in the next annual general meeting

بسم الله الرحمن الرحيم

التقرير السنوي للجنة الرقابة الشرعية الداخلية لبنك دبي التجاري – الإسلامي

الحمد لله ربِّ العالمين، والصَّلاة والسَّلام على أشرف الأنبياء والمرسلين سيدنا محمدٍ وعلى آله وصحبه أجمعين.

صدر في: 2023/01/05

إلى السادة المساهمين في بنك دبي التجاري ("المؤسسة")

السَّلام عليكم ورحمة الله تعالى وبركاته، وبعد:

إن لجنة الرقابة الشرعية الداخلية للمؤسسة ("**اللجنة**") ووفقا للمتطلبات المنصوص عليها في القوانين والأنظمة والمعايير ذات العلاقة ("**المتطلبات الرقابية**")، تقدم تقريرها المتعلق بأعمال وأنشطة المؤسسة المتوافقة مع الشريعة الإسلامية للسنة المالية المنتهية في 31 ديسمبر من عام (2022) ("**السنة المالية**").

1. مسؤولية اللجنة

إن مسؤولية اللجنة وفقا للمتطلبات الرقابية ولائحتها التنظيمية تتحدد في الرقابة الشرعية على جميع أعمال، وأنشطة، ومنتجات، وخدمات، والمعايير المحاسبية، والعمليات والأنشطة بشكل عام، وعقد التأسيس، والنظام وعقود، ومستندات، ومواثيق عمل المؤسسة، والسياسات، الأساسي، والقوائم المالية للمؤسسة، وتوزيع الأرباح وتحميل الخسائر والنفقات والمصروفات بين المساهمين وأصحاب حسابات الاستثمار ("أعمال المؤسسة") وإصدار قرارات شرعية بخصوصها، ووضع الضوابط الشرعية اللازمة لأعمال المؤسسة والتزامها بالشريعة الإسلامية في إطار القواعد والمبادئ والمعايير التي تضعها الهيئة العليا الشرعية ("**الهيئة**")، لضمان توافقها مع أحكام الشريعة الإسلامية.

وتتحمل الإدارة العليا مسؤولية التزام المؤسسة بالشريعة الإسلامية وفقا لقرارات، فتاوى، وآراء الهيئة، وقرارات اللجنة في إطار القواعد والمبادئ والمعايير التي تضعها الهيئة ("الالتزام بالشريعة الإسلامية") في جميع أعمالها والتأكد من ذلك، ويتحمل مجلس الإدارة المسؤولية النهائية في هذا الشأن.

2. المعايير الشرعية

اعتمدت اللجنةُ على المعايير الشرعية الصادرة عن هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية ("**أيوفي**") معايير للحد الأدنى والتزمت بها في كل ما تفتي به أو تعتمده أو توافق عليه أو توصي به فيما يتعلق بأعمال المؤسسة خلال السنة المالية المنتهية للمتطلبات الشرعية دون استثناء وفقا لقرار الهيئة رقم 2018/3/18.

3. الأعمال التي قامت بها اللجنة خلال السنة المالية

لقد قامت اللجنة بالرقابة الشرعية على أعمال المؤسسة، من خلال مراجعة أعمال المؤسسة ومراقبتها من خلال قسم الرقابة الشرعية الداخلية والتدقيق الشرعي، وفقا لصلاحيات اللجنة ومسؤولياتها والمتطلبات الرقابية في هذا الشأن. ومن الأعمال التي قامت بها اللجنة ما يلي:

أ. عقد أربعة اجتماعات (4) خلال السنة المالية.

ب. إصدار الفتاوى والقرارات وإبداء الآراء فيما يتعلق بأعمال المؤسسة التي عرضت على اللجنة.

ج. مراجعة السياسات، واللوائح الإجرائية، والمعايير المحاسبية، وهياكل المنتجات، والعقود، والمستندات، ومواثيق العمل، والوثائق الأخرى المقدمة من قبل المؤسسة للجنة للاعتماد/الموافقة.

د. التأكد من مدى توافق توزيع الأرباح وتحميل النفقات والمصروفات بين أصحاب حسابات الاستثمار والمساهمين مع الضوابط الشرعية المعتمدة من قبل اللجنة.

هـ. الرقابة من خلال قسم الرقابة الشرعية الداخلية، والتدقيق الشرعي، على أعمال المؤسسة بما في ذلك المعاملات المنفذة والإجراءات المتبعة، وذلك على أساس اختيار عينات من العمليات المنفذة، ومراجعة التقارير المقدمة في هذا الخصوص.

و. تقديم توجيهات إلى الجهات المعنية في المؤسسة بتصحيح ما يمكن تصحيحه من الملاحظات التي وردت في التقارير المقدمة من قبل قسم الرقابة الشرعية الداخلية، والتدقيق الشرعي، وإصدار قرارات بتجنيب عوائد المعاملات التي وقعت مخالفات في تطبيقها (ان تطلب الامر) لصرفها في وجوه الخير بحسب توجيهات اللجنة.

ز. اعتماد التدابير التصحيحية/الوقائية فيما يتعلق بالأخطاء التي تم الكشف عنها لمنع حدوثها مرة أخرى.

ح. مسؤولية إخراج الزكاة تقع على عاتق المساهمين، وإدارة البنك غير مخولة بإخراج الزكاة نيابة عنهم، وسيعلم المساهمون بالنسبة الواجب إخراجها (إن وجدت) في رسالة مستقلة.

ط. التواصل مع مجلس الإدارة واللجان التابعة له والإدارة العليا للمؤسسة، حسب الحاجة، بخصوص التزام المؤسسة بالشريعة الإسلامية.

وقد سعت اللجنة للحصول على جميع المعلومات والتفسيرات التي اعتبرتها ضرورية للتأكد من التزام المؤسسة بالشريعة الإسلامية.

4. استقلالية اللجنة

تؤكد اللجنة بأنها أدت مسؤولياتها وقامت بجميع أعمالها باستقلالية تامة، وقد حصلت على التسهيلات اللازمة من المؤسسة وإدارتها العليا ومجلس إدارتها للاطلاع على جميع الوثائق والبيانات، ومناقشة التعديلات والمتطلبات الشرعية.

5. رأي اللجنة بخصوص التزام المؤسسة بالشريعة الإسلامية

بناءً على ما حصلنا عليه من معلومات وإيضاحات من أجل التأكد من التزام المؤسسة بالشريعة الإسلامية، فقد توصلت اللجنة إلى درجة مقبولة وقد بشأنها، تقارير رفع من الاطمئنان بأن أعمال المؤسسة خلال السنة المالية **متوافقة مع الشريعة الإسلامية إلا ما لوحظ من مخالفات** تم الخصوص بهذا المناسبة الإجراءات باتخاذ اللجنة وجهت.

ورأي اللجنة، المذكور أعلاه، مبني على المعلومات التي اطلعت عليها خلال السنة المالية حصراً.

نسأل الله العلي القدير أن يحقق للجميع الرشاد والسداد

والسلام عليكم ورحمة الله وبركاته

توقيع أعضاء لجنة الرقابة الشرعية الداخلية للمؤسسة

فضيلة الشيخ الأستاذ الدكتور/ محمد عبدالرحيم سلطان العلماء **رئيس اللجنة والعضو التنفيذي**	
فضيلة الشيخ الدكتور/ أحمد عبد العزيز الحداد **عضو اللجنة**	
فضيلة الشيخ / موسى طارق خوري **عضو اللجنة**	

VII. Senior Executives

1. Selection Process

All employees hired to the senior most levels of the Bank must be selected through a fair and rigorous process. The Bank believes that its Executive Committee (EXCO) is made up of highly qualified individuals from diverse backgrounds with an extensive track record and in full compliance with the Corporate Governance Regulations. All individuals with the responsibility for management and control of the business must prove and assure the Bank that they comply with a fit and proper test.

The Bank exercises judgment and discretion in assessing fitness and propriety and takes into account all relevant matters including:

a) **Competence and Capability.** The applicants must show that they are competent to undertake the relevant class of regulated activities including where appropriate, detailed knowledge of the structure, purpose and risks of the products/processes associated with the activity. To demonstrate competence, the person involved in carrying out the activities must act in a knowledgeable, professional and efficient manner, complying with the prevailing regulations. The nature and extent of the competence required will depend upon the services being offered or to be offered. In determining a person's competence and capability, the Bank shall have regard to matters including but not limited to:

- The person has satisfactory past performance or expertise in the nature of the business being conducted;
- The person has an appropriate range of skills and experience to understand, operate and manage the regulated activities/financial affairs;
- The person has the technical knowledge and ability to perform prescribed duties for which they are engaged, especially recognized professional qualifications and membership of relevant professional institutions.
- A panel of equally/more qualified individuals will be involved in the assessment of the persons fitment for the role

b) **Honesty, Integrity, Fairness, Ethical Behavior.** In determining the honesty, integrity and reputation of the candidate, the Bank may consider among other things, whether the candidate has been convicted, on indictment, of dishonesty, fraud, money laundering, theft or financial crime. This may be regarded by the Bank as an indication that a person is not fit and proper and will, in principle, exclude a person from being appointed into a position. UAE Central Bank may treat each candidate's application on a case–by–case basis taking into account the seriousness of, and circumstances surrounding, the offence, the explanation offered by the convicted person, the relevance of the offence to the proposed role, the passage of time since the offence was committed and evidence of the individual's rehabilitation.

c) **Financial Soundness or Solvency.** In assessing the financial soundness of the candidate, the Bank will assess whether the person can maintain solvency and prudent financial control. It includes meeting liabilities as they become due and ensuring adequate control over financial risks on a continuing basis. It also involves taking proper care of customers. Financial soundness is an important element in determining the fitness and probity of applicants. In determining the financial soundness of the candidate, the Bank will also consider matters such as but not limited to:

- Whether there are any indicators that the person will not be able to meet their debts as they fall due;
- Whether relevant solvency requirements are met;
- Whether the person has been subject to any judgment debt or award that remains outstanding or has not been satisfied within a reasonable period;
- Whether the person has made arrangements with creditors, filed for bankruptcy or been adjudged bankrupt or had assets confiscated;
- Whether the person has been able to provide the Bank with a satisfactory credit reference.

d) **Regulatory Approvals.** All applications/enquiries relating to any positions that require Central Bank of UAE approval will be sent to the Banking Supervision Department along with the required appointment documents.

2. Management Committees

Management Committees are established for the purpose of recommending, deciding, approving and/or monitoring key topics in their respective areas of specialization. Equally importantly, they provide a platform for discussion between the Senior Management team on important business and control areas for the Bank.

Management Committees are endowed with full executive powers to take into force decisions and actions related to their field, scope, and structured hierarchy.

Certain day-to-day activities of the Bank have been delegated by the Board to the Senior Management through the Executive Committee (the "**EXCO**").

The Board of Directors delegates to the Executive Committee (EXCO) the authority and limits to assist the CEO and his directs in fulfilling their oversight responsibilities which include:

1. Ensuring coordination of activity among CEO and key bank managers
2. Safeguarding the delivery of the Bank's financial and operational performance as defined in the Board approved Strategy
3. Serving as a sounding board for the CEO in the overall management of the business and affairs of the Bank
4. Facilitating prompt cross-functional decisions on key issues or decisions

Other management committees included:

a) Asset and Liability Committee ("ALCO")

The Board of Directors has delegated the authority to the CEO, in conjunction with ALCO to:

1. Manage the balance sheet in accordance with limits and presented financial plans
2. Approve significant asset and liability decisions relating to wholesale funding and capital raising in the form of debt or equity e.g. AT1, EMTN or share issuance
3. Oversight the ALCO portfolio including the investment book

b) Credit Committee ("CC")

The credit Committee (referred as "CC") reviews and approves credit facilities requests where Commercial Bank of Dubai (CBD) is acting a lender. It considers also any issues that may have a potential material impact on the Bank's performance, risks and controls framework and corporate social responsibility. The committee will exercise the authorities at its level as per the approvals granted by Board of Directors through Board Executive Committee (BEC) and the proposals higher than the Credit Committee approving authorities will be taken up to BEC.

c) Project Investment Committee ("PIC")

The PIC reviews and approves investment projects for CBD and provides guidance for CBD's long term and short term goals in the areas of strategic project investment. The PIC governs all projects of CBD including but not limited to those which have a direct or an indirect dependency on IT. The PIC is also responsible for reviewing key aspects including the investment slate, project performance, project financials, business case approvals and project delivery.

d) Human Resources Committee ("HRC")

The Human Resources Committee (HRC) is established by the Board of Directors and supports the Board Nominations, Remuneration and Governance Committee (REMCO) in matters related to the Bank's people strategy. The purpose of the Committee is to provide assistance to the REMCO in relation to the following:

1. People Strategy, Culture and HR practices
2. Emiratization Strategy
3. Performance and Reward

4. Resourcing
5. Development and succession planning
6. HR policies and Procedures
7. People Risk and other HR related matters

e) Risk Management & Compliance Committee (RMCC)

The RMCC has been created to provide strategic and tactical guidance in managing the Bank’s overall risk profile in alignment with the risk appetite as set by the Board Risk & Compliance Committee.

The RMCC provides strategic and tactical guidance in managing the Bank's overall risk profile in alignment with the risk appetite as set by the Board Risk & Compliance Committee (BRCC). The Committee reviews and challenges risk and compliance reports covering all aspects of the bank’s activity and reviews and approves risk policies, or endorses them for BRCC approval as required. THE RMCC is also the senior management committee responsible for overseeing Stress Testing and ICAAP processes.

3. Key Members of the current Senior Management

- **Dr. Bernd van Linder – Chief Executive Officer**
  Dr. Bernd van Linder is currently the Chief Executive Officer at the Commercial Bank of Dubai. He has more than 25 years of banking experience. In his previous role, Dr. Bernd was the CEO for Alawwal Bank (Saudi Hollandi Bank) and was based in Riyadh. He worked at Alawwal Bank for over 10 years including more than seven years in the position of CEO. Prior to that, he worked for ABN Amro in the Netherlands. Dr. Bernd holds a MBA Financial Management from the University of Bradford, UK, a PhD in Artificial Intelligence from the Utrecht University in the Netherlands and an MSc in Computer Science from Nijmegen University in the Netherlands. Dr. Bernd was appointed as CEO of CBD in January 2017.

- **Darren Clarke – Chief Financial Officer**
  Darren Clarke is currently the Chief Financial Officer at the Commercial Bank of Dubai. He has more than 25 years of banking experience. In his previous role, Darren was the CFO for National Australia Bank (NAB) International, and was based in Singapore. He worked at NAB for 13 years, including as the CFO for Global Markets & Treasury. Prior to that, he worked for JPMorgan Chase in the UK, Luxembourg and Hong Kong. Darren holds a Bachelor’s degree in Accounting from the University of Wollongong. He is also qualified as a Chartered Accountant with the Institute of Chartered Accountants in Australia. Darren joined CBD in April 2018.

- **Rupert Rogers – Chief Risk Officer**

Rupert Rogers is the Chief Risk Officer at Commercial Bank of Dubai and is responsible for leading and implementing the Bank's risk framework and overseeing Operational Risk, Fraud Risk, Market Risk and Enterprise Risk Management.

Rupert is an accomplished banking and capital markets professional with more than 20 years of experience across multiple geographies. Prior to joining CBD, Rupert was the General Manager of Enterprise Risk Management in SABB in Saudi Arabia.

Rupert has also held a number of senior risk and credit roles for Standard Bank and the Financial Services Authority in London prior to his move to Saudi Arabia in 2009.

Rupert is a Chartered Financial Analyst and holds a Bachelor of Law from The London School of Economics.

VIII. External Auditors

1. Auditors, Duration of Mandate and Term of office of the Lead Auditor

Pursuant to the article 52 of the Articles of Association, and subject to the rules and decisions issued by the Central Bank, the Bank shall have one or more Auditor(s). The General Assembly shall appoint the Auditor and determine his remuneration based upon nomination by the Board of Directors. The Auditor must be registered with the Authority and must be licensed to practice in the UAE. Such Auditor shall be appointed for a renewable term of one (1) year provided the renewed terms do not exceed six (6) consecutive years and provided further that the partner responsible for the auditing shall be changed at the end of three (3) fiscal years. The Auditor shall have the duty to monitor the financial accounts for the year for which he was appointed. The Auditor shall begin his duties with the end of that General Assembly meeting until the end of the following annual General Assembly meeting.

KPMG Lower Gulf Limited have been the External Auditors since March 2018. In its first meeting in January 2023, the Board Audit Committee recommended to the Board of Directors to propose to the General Assembly Meeting of Shareholders KPMG as the external auditors and KPMG audit partner rotation for the year 2023.

2. Auditing Fees

Below table clarifies the fees paid to KPMG since 2018 as approved by the General Assembly Meeting of Shareholders

Year	Fees in AED
2018	700,000
2019	724,500
2020	760,000
2021	782,800
2022	939,360

3. Policy on Relationship with External Auditors

The Board of Directors during its meeting held on 28 July 2021 approved the Policy on Relationship with External Auditors. The Board of Directors considers external auditor's independence as a fundamental pillar for the credibility and reliability of auditors' reports. CBD has adopted the policy on auditor independence to ensure that CBD's external auditor is independent and is perceived to be independent. The policy is interpreted in light of the specific requirements of the UAE Commercial Companies Law of 2021, the Decretal Federal Law No. (14) of 2018 Regarding the Central Bank & Organization of Financial Institutions and Activities, the Central Bank of UAE Regulation on Financial Reporting And External Audit and international best practice.

In addition to being responsible for recommending to the Board (and the Board to recommend to the Annual General Meeting of Shareholders) the appointment and compensation of the external auditor, the Audit Committee is also responsible for oversight of the external auditor's work including resolving disagreements between management and the external auditor regarding financial reporting. The external auditor will provide reports directly to the Audit Committee. The Committee must also pre-approve all audit and non-audit services carried out by the external auditors either on an engagement-by-engagement basis or pursuant to specific pre-approval policies adopted by the Audit Committee.

CBD requires that all services provided by the external auditor, including the non-audit services listed in this policy may be provided by the external auditor, must be in accordance with the following principles:

- the external auditor should not have a mutual or conflicting interest with CBD;
- the external auditor should not audit its own work;
- the external auditor should not function as part of management or as an employee; and
- the external auditor should not act as an advocate of CBD.

Furthermore, any potential appointments of ex-partners or ex-employees of the external auditor to the CBD finance staff, audit staff at senior manager level or higher, must be approved in advance of the appointment being made by the Chairman of the Audit Committee after consultation with the Chairman of the Remuneration & Nomination Committee.

IX. Corporate Social Responsibility and ESG

1. General Overview

The Board of Directors has the power to design, assess, and continuously revise the Corporate Policies, which contain the guidelines governing the conduct of the Bank and further develop the principles reflected in the Mission, Vision, and Values of the Commercial Bank of Dubai and the other rules of the Corporate Governance system.

The Bank's perspective on organizational culture and employee engagement includes a Corporate Social Responsibility ("**CSR**") policy intended to raise awareness of social responsibility and thereby contribute to the sustainable creation of value for society, citizens, customers, shareholders, and the communities in which CBD does business

The Bank contributes to the development of communities with its business activity and its social responsibility strategy with measures designed to promote education and culture and to protect vulnerable groups, and works to establish firm and permanent bonds, taking into consideration the interests of its workforce, shareholders and the financial community, regulatory bodies, customers, suppliers, the media, society in general, and the environment (the "**Stakeholders**").

The Board approved the Corporate Social Responsibility Policy in its meeting held on 7th February 2018. The Policy is intended to establish the basic principles and the general framework of activities for the management of corporate social responsibility practices assumed by the Bank and to serve as the basis for integrating social responsibility into the Bank's strategy. The Policy is further developed and supplemented by the Stakeholder Engagement Policy.

Being a responsible company is integral to the Bank's success and the Bank is engaged on the issues that matter most to our customers, employees, and communities. Our employees are guided by a common set of values that ensure we deliver on our goals while also helping to address local challenges

The Bank carries out its business with the objective of sustainably creating value for society, customers, shareholders, and for the communities in which it operates, providing a high-quality service through innovation and maintaining awareness of the opportunities offered by the knowledge economy.

Our core pillars for CSR are as follows:

(i) Health
(ii) Education
(iii) Financial literacy

The Board reviews these pillars from time to time and make additions or deletions, based on the priorities for each year.

2. 2022 Actions

- For the year 2022 the focus was on volunteering and CBD staff have achieved over 2500 hours in various volunteering events and initiatives hosted through CBD volunteering club. CBD volunteers club have arranged several volunteering opportunities including, a movie outing with al Noor training center, a visit to the elderly center as well as a volunteering opportunity at al Jalila children's hospital. In addition to two volunteering opportunities at the Dubai Club for People of Determination. These impactful sessions included supervising workshops as well as coaching and leading sessions. Over 60 volunteers participated, the events were very successful and inspiring. World Autism Awareness Day is observed on the 2nd of April. This day recognizes and spreads awareness for the rights of people with autism. In support of the World Autism Awareness Day, CBD has arranged a visit to the Dubai Autism Center on the 29th of March. As a result of our contributions, The Commercial Bank of Dubai was awarded and recognized by Dubai Center for special needs for its long-lasting partnership over the years as well as by Sheikha Latifa Bint Mohammed Awards for Childhood Creativity, launched by Dubai's Women's Association, has honored Commercial Bank of Dubai for its continuous support of the organization and as a strategic partner. Over the past years CBD has eagerly supported the Award for childhood creativity by playing an essential role in motivating and inspiring young people to present innovative ideas. CBD deems it the best way to demonstrate its sense of belonging to the community as part of its continuous CSR strategy., The Mohammed bin Rashid Global Centre for Endowment Consultancy (MBRGCEC), under the Awqaf and Minors Affairs Foundation (AMAF), announced the launch of the Bread for all campaign, which aims to serve underprivileged families and laborers. The digital initiative aims to provide fresh bread free of charge to those in need through smart machines deployed in several outlets. CBD is a proud sponsor of the very successful initiative. Due to its remarkable contributions and initiatives, The Commercial bank of Dubai has received the renowned Dubai Endowment sign on the 16th of November 2022, for its innovative efforts in contributing to the society and supporting social initiatives. The Dubai endowment sign was granted to CBD by Mohammed bin Rashid Global Centre for Endowment Consultancy, which is affiliated with Awqaf and Minors Affairs Foundation in Dubai. The Dubai Endowment Sign is a recognition and appreciation granted by the Mohammed Bin Rashid Global Centre for Endowment Consultancy (MBRGCEC) to government and private entities having sustainable social contributions to the community as per the concept of innovative endowment.

- On marking Zayed Humanitarian Day following the legacy of the late Sheikh Zayed, CBD contributed to 31 charitable, educational, research and training and rehabilitation centers for people of determination across UAE. 'In an effort to embrace the spirit of giving during the holy month of Ramadan, and as part of our continued partnership with Beit Al Kahir Society, CSR team have organized a volunteering program to distribute Iftar meal boxes this Ramadan. The initiative provided a great opportunity for CBD volunteers to experience Ramadan and give back to the society. CBD in affiliation with Emirates Red Crescent and the Islamic Affairs and Charitable Activities Department, collaborated in a "Back to School" initiative from the 16th of August 2022 - 2nd Sep 2022. The initiative was quite successful and around 87 boxes were collected and sent to the Emirates Red Crescent, along with 500 back to school vouchers from the Dubai library distributors each worth of AED 50.

- On an internal level, CBD is proud to celebrate International Women's Day and back the ambitions of all our female colleagues as they continue to succeed and inspire others around them. This year we have asked the women working at CBD, "What does International Women's Day mean to you? "in a short video. Every year Mother's Day is celebrated on the 21st of march honoring all. This year we have acknowledged mothers by passing flowers and a greeting card among all CBD's women staff. Internal communication was sent to all staff. And In support of the world thalassemia day. CBD hosted an important event with Dr. Essam Dohair, Medical Advisor at the Emirates Thalassemia Society. Thalassemia is an inherited blood disorder that causes the body to have less hemoglobin than normal. This collaboration resulted in an understanding that Thalassemia patients depend on blood transfusions to survive and thrive and are hugely grateful to every volunteer who gives blood. The session was very successful and over 70 people joined virtually. Commercial bank of Dubai hosted an inspirational motivational speaker her Excellency Eng. Azza Bin Sulaiman Deputy Secretary-General of the National Olympic Committee and a Former Member of the Federal National Council. During the seminar, her Excellency emphasized on the country's transformation over the past 50 years, and the increased presence of Emirati women in different fields. Today we see a big number of Emirati women in leadership positions across the country.

- CBD also continued its 28-year-old partnership with Jabel Ali horse racecourse and sponsored 8 races in 2022-23 as part of CBD's support to UAE Culture and sports heritage.

3. ESG 2022 Report

The UAE has set an ambitious sustainability agenda for the coming years. CBD remains committed to supporting this agenda in the build-up to COP28 and in the decades that follow. In Q1 2022, we published our second Sustainability Report. The report showcased the progress made across multiple initiatives under our ESG Framework. Throughout 2022, we took further significant steps on our ESG journey. Some of the highlights are listed below:

- We undertook a comprehensive ESG materiality assessment in consultation with multiple stakeholder groups to prioritize our sustainability efforts to maximize our contribution to overall business performance.
- We established our "Sustainable Finance Product Framework" in preparation for initiating a "second party opinion" in 2023.
- We identified a set of ISO Certifications which, once obtained, will demonstrate our commitment towards building a sustainable future.
- We enhanced our procurement process to ensure we prioritize partnerships with vendors who share our commitment to sustainability.
- We have developed a roadmap to integrate climate risk into our enterprise risk management framework.
- We collaborated with Sharaf DG Group to offer solar panel financing and introduced preferential pricing for electric and hybrid vehicle loans.
- We introduced dedicated recycling bins and water dispenser machines, removing environmentally damaging plastic bottles in the process.

Sharia Supervisory Committee Report

بسم الله الرحمن الرحيم

التقرير السنوي للجنة الرقابة الشرعية الداخلية لبنك دبي التجاري – الإسلامي

الحمد لله ربِّ العالمين، والصَّلاة والسَّلام على أشرف الأنبياء والمرسلين سيدنا محمدٍ وعلى آله وصحبه أجمعين.

صدر في: 2023/01/05

إلى السادة المساهمين في بنك دبي التجاري ("المؤسسة")

السَّلام عليكم ورحمة الله تعالى وبركاته، وبعد:

إن لجنة الرقابة الشرعية الداخلية للمؤسسة ("**اللجنة**") ووفقا للمتطلبات المنصوص عليها في القوانين والأنظمة والمعايير ذات العلاقة ("**المتطلبات الرقابية**")، تقدم تقريرها المتعلق بأعمال وأنشطة المؤسسة المتوافقة مع الشريعة الإسلامية للسنة المالية المنتهية في 31 ديسمبر من عام (2022) ("**السنة المالية**").

1. مسؤولية اللجنة

إن مسؤولية اللجنة وفقا للمتطلبات الرقابية ولائحتها التنظيمية تتحدد في الرقابة الشرعية على جميع أعمال، وأنشطة، ومنتجات، وخدمات، وعقود، ومستندات، ومواثيق عمل المؤسسة، والسياسات، والمعايير المحاسبية، والعمليات والأنشطة بشكل عام، وعقد التأسيس، والنظام الأساسي، والقوائم المالية للمؤسسة، وتوزيع الأرباح وتحميل الخسائر والنفقات والمصروفات بين المساهمين وأصحاب حسابات الاستثمار ("أعمال المؤسسة") وإصدار قرارات شرعية بخصوصها، ووضع الضوابط الشرعية اللازمة لأعمال المؤسسة والتزامها بالشريعة الإسلامية في إطار القواعد والمبادئ والمعايير التي تضعها الهيئة العليا الشرعية ("**الهيئة**")، لضمان توافقها مع أحكام الشريعة الإسلامية.

وتتحمل الإدارة العليا مسؤولية التزام المؤسسة بالشريعة الإسلامية وفقا لقرارات، فتاوى، وآراء الهيئة، وقرارات اللجنة في إطار القواعد والمبادئ والمعايير التي تضعها الهيئة ("الالتزام بالشريعة الإسلامية") في جميع أعمالها والتأكد من ذلك، ويتحمل مجلس الإدارة المسؤولية النهائية في هذا الشأن.

2. المعايير الشرعية

اعتمدت اللجنةُ على المعايير الشرعية الصادرة عن هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية ("**أيوفي**") معايير للحد الأدنى للمتطلبات الشرعية والتزمت بها في كل ما تفتي به أو تعتمده أو توافق عليه أو

توصي به فيما يتعلق بأعمال المؤسسة خلال السنة المالية المنتهية دون استثناء وفقا لقرار الهيئة رقم 2018/3/18.

3. الأعمال التي قامت بها اللجنة خلال السنة المالية

لقد قامت اللجنة بالرقابة الشرعية على أعمال المؤسسة، من خلال مراجعة أعمال المؤسسة ومراقبتها من خلال قسم الرقابة الشرعية الداخلية والتدقيق الشرعي، وفقا لصلاحيات اللجنة ومسؤولياتها والمتطلبات الرقابية في هذا الشأن. ومن الأعمال التي قامت بها اللجنة ما يلي:

أ. عقد أربعة اجتماعات (4) خلال السنة المالية.

ب. إصدار الفتاوى والقرارات وإبداء الآراء فيما يتعلق بأعمال المؤسسة التي عرضت على اللجنة.

ج. مراجعة السياسات، واللوائح الإجرائية، والمعايير المحاسبية، وهياكل المنتجات، والعقود، والمستندات، ومواثيق العمل، والوثائق الأخرى المقدمة من قبل المؤسسة للجنة للاعتماد/الموافقة.

د. التأكد من مدى توافق توزيع الأرباح وتحميل النفقات والمصروفات بين أصحاب حسابات الاستثمار والمساهمين مع الضوابط الشرعية المعتمدة من قبل اللجنة.

هـ. الرقابة من خلال قسم الرقابة الشرعية الداخلية، والتدقيق الشرعي، على أعمال المؤسسة بما في ذلك المعاملات المنفذة والإجراءات المتبعة، وذلك على أساس اختيار عينات من العمليات المنفذة، ومراجعة التقارير المقدمة في هذا الخصوص.

و. تقديم توجيهات إلى الجهات المعنية في المؤسسة بتصحيح ما يمكن تصحيحه من الملاحظات التي وردت في التقارير المقدمة من قبل قسم الرقابة الشرعية الداخلية، والتدقيق الشرعي، وإصدار قرارات بتجنيب عوائد المعاملات التي وقعت مخالفات في تطبيقها (ان تطلب الامر) لصرفها في وجوه الخير بحسب توجيهات اللجنة.

ز. اعتماد التدابير التصحيحية/الوقائية فيما يتعلق بالأخطاء التي تم الكشف عنها لمنع حدوثها مرة أخرى.

ح. مسؤولية إخراج الزكاة تقع على عاتق المساهمين، وإدارة البنك غير مخولة بإخراج الزكاة نيابة عنهم، وسيعلم المساهمون بالنسبة الواجب إخراجها (إن وجدت) في رسالة مستقلة.

ط. التواصل مع مجلس الإدارة واللجان التابعة له والإدارة العليا للمؤسسة، حسب الحاجة، بخصوص التزام المؤسسة بالشريعة الإسلامية

وقد سعت اللجنة للحصول على جميع المعلومات والتفسيرات التي اعتبرتها ضرورية للتأكد من التزام المؤسسة بالشريعة الإسلامية.

4. استقلالية اللجنة

تؤكد اللجنة بأنها أدت مسؤولياتها وقامت بجميع أعمالها باستقلالية تامة، وقد حصلت على التسهيلات اللازمة من المؤسسة وإدارتها العليا ومجلس إدارتها للاطلاع على جميع الوثائق والبيانات، ومناقشة التعديلات والمتطلبات الشرعية.

5. رأي اللجنة بخصوص التزام المؤسسة بالشريعة الإسلامية

بناءً على ما حصلنا عليه من معلومات وإيضاحات من أجل التأكد من التزام المؤسسة بالشريعة الإسلامية، فقد توصلت اللجنة إلى درجة مقبولة من الاطمئنان بأن أعمال المؤسسة خلال السنة المالية **متوافقة مع الشريعة الإسلامية إلا ما لوحظ من مخالفات** تم رفع تقارير بشأنها، وقد وجهت اللجنة باتخاذ الإجراءات المناسبة بهذا الخصوص.

ورأي اللجنة، المذكور أعلاه، مبني على المعلومات التي اطلعت عليها خلال السنة المالية حصراً.

نسأل الله العلي القدير أن يحقق للجميع الرشاد والسداد والسلام عليكم ورحمة الله وبركاته

توقيع أعضاء لجنة الرقابة الشرعية الداخلية للمؤسسة

فضيلة الشيخ الأستاذ الدكتور/ محمد عبدالرحيم سلطان العلماء **رئيس اللجنة والعضو التنفيذي**	
فضيلة الشيخ الدكتور/ أحمد عبد العزيز الحداد **عضو اللجنة**	
فضيلة الشيخ / موسى طارق خوري **عضو اللجنة**	