

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.

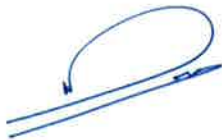
Report on Other Legal and Regulatory Requirements

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

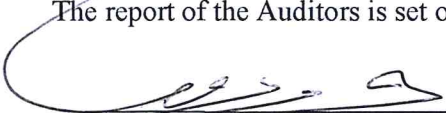
	Notes	2022 AED'000	2021 AED'000
ASSETS			
Cash and balances with Central Bank	7	15,760,429	14,667,589
Due from banks, net	8	3,766,507	3,154,599
Loans and advances and Islamic financing, net	9	74,607,821	76,441,385
Investment securities, net	10	8,810,092	8,991,321
Investment in an associate	11	92,916	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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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 PREPARATION

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements
For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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).

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

a) Classification (continued)

o 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.

o 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).

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

a) Classification (continued)

o 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.

Non-recourse

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.

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Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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

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Notes to the Group consolidated financial statements
For the year ended 31 December 2022

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.

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Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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:

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Notes to the Group consolidated financial statements
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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 unlikelihood 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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements
For the year ended 31 December 2022

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)

o 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.

o 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;

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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).

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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:

Murabaha

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.

Ijarah

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).

Musharaka

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements
For the year ended 31 December 2022

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.

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Notes to the Group consolidated financial statements

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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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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 of 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'.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements
For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements
For the year ended 31 December 2022

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

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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 | • Commercial Real Estate |
| • Retail | • Education |
| • Logistics | |

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 disbursements 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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements

For the year ended 31 December 2022

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.

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For the year ended 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.

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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.

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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:

	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total carrying amount
	AED'000	AED'000	AED'000	AED'000
31 December 2022				
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

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For the year ended 31 December 2022

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
	AED'000	AED'000	AED'000	AED'000
31 December 2022				
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

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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.

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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:

	2022	2021
	AED'000	AED'000
At Amortised Cost		
Loans and advances		
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

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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).

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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

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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 AED'000	2021 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 AED'000	2021 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 AED'000	2021 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

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12. INVESTMENT PROPERTIES, NET

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

	2022	2021
	AED'000	AED'000
Cost		
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).

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13. PROPERTY AND EQUIPMENT

	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
Cost					
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
	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
Cost					
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.

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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
	AED'000	AED'000
Customer deposits		
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
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	2022	2021
	AED'000	AED'000
By sector:		
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

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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.

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18. OTHER LIABILITIES

	2022 AED'000	2021 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 AED'000	2021 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.

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19. EQUITY (CONTINUED)

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)

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20. INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2022 AED'000	2021 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 AED'000	2021 AED'000
Interest expense		
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 AED'000	2021 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

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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.

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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
	AED'000	AED'000
Contingent liabilities:		
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).

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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 its 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

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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

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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

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32. SEGMENTAL REPORTING (CONTINUED)

	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

- This includes staff and other expenses and depreciation and amortization.
- 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	-	-

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

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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

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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.

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Notes to the Group consolidated financial statements

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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:

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34. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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.

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Notes to the Group consolidated financial statements

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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.

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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.

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Notes to the Group consolidated financial statements

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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.

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2022				
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

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Loans and advances				
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

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2021				
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

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Loans and advances				
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).

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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
	AED'000	AED'000
Allowances for impairment losses: General		
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.

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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:

	Impaired loans	Collateral	Specific provision and interest in suspense
31 December 2022	AED'000	AED'000	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

	Impaired loans	Collateral	Specific provision and interest in suspense
31 December 2021	AED'000	AED'000	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).

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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 AED'000	2021 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	<u>44,259,710</u>	<u>45,583,736</u>

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

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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

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Notes to the Group consolidated financial statements

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

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Notes to the Group consolidated financial statements

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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

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For the year ended 31 December 2022

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.

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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.

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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:

		Less than 1	From 1 to	From 3	From 1 to	Over 5	No Fixed
	Total	month	3 months	months to 1	5 years	years	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

Commercial Bank of Dubai PSC

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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
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
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

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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:

		Less than 1	From 1 to 3	From 3	From 1 to 5	Over 5
	Total	month	months	months to	years	years
31 December 2022	AED'000	AED'000	AED'000	1 year	AED'000	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:

	Total	Less than 1	From 1 to 3	From 3 months	From 1 to 5
	AED'000	month	months	to 1 year	years
31 December 2022	AED'000	AED'000	AED'000	AED'000	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

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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)

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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

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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.

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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 Position	Forward Position	Net exposure	
	AED'000	AED'000	2022 AED'000	2021 AED'000
Currencies				
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 AED'000	2021 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 AED'000	2021 AED'000
Publicly traded (quoted):		
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 AED'000	2021 AED'000
Realised gains on sale	-	1,186
Unrealised loss	(8,196)	(17,717)

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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.

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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.

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Notes to the Group consolidated financial statements
For the year ended 31 December 2022

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.

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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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements
For the year ended 31 December 2022

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.

Commercial Bank of Dubai PSC

Notes to the Group consolidated financial statements
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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.

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Notes to the Group consolidated financial statements
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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.