

## Report of the Board of Directors

Dear Shareholders,

The Board of Directors takes pleasure in presenting the Annual Report of the Bank for the year 2007. The Report has been prepared in accordance with the requirements of International Financial Reporting Standards.

### Financial highlights

The bank's profit for the year reached AED 936 million, a growth of 56% in 2007 compared to the previous year, after deducting all expenses and provisions. The total assets of the bank increased by 63% in 2007 to reach AED 30.4 billion. The loans and advances rose to AED 20.8 billion, a growth of 64% while the customer deposits increased by 54% to reach AED 21.2 billion. Shareholders' funds reached the level of AED 4.7 billion, an increase of 25%, thus, further strengthening the bank's solid base with a capital adequacy ratio of 16% which exceeds the minimum requirements set by the Basel Committee and the UAE Central Bank, which are 8 and 10 per cent respectively.

Operating income increased by 54 % to AED 1.4 billion. Interest margins remained healthy in a highly competitive market and the net interest income increased by 39 % to reach AED 872 million. Non-interest income increased to AED 513 million, 37 % of total operating income compared to 31 % in 2006. The main constituents of non-interest income continued to be fees and commission, income from foreign exchange operations and investment income. Fees and commission increased by 24%, foreign exchange income increased by 39 %.

The Bank's financial results for the year 2007 demonstrate that the Bank continues to enjoy a high level of profitability and solvency:

- Return on average assets 3.81 % (2006: 3.54%)
- Profit to the weighted average share capital ratio 83.7 % (2006: 62.9%)
- Profit to the average shareholders' equity ratio 24.2 % (2006: 18.1%)
- Coverage Ratio 91.4 % (2006: 83%)
- Efficiency Ratio 29 % (2006: 31%)

The Board of Directors recommends the distribution of the net profit as follows:

- Distribution of AED 339 million as cash dividends to shareholders, i.e. 30 % of the capital.
- Distribution of AED 282 million as bonus shares to shareholders i.e. 25 % of the capital.
- Transfer AED 200 million to 'other reserves' to increase shareholders' funds.

The contribution of the consumer segment was 15% and the corporate segment was 58%

### Strategy

The strong performance of the bank reflects the continued robust economic growth in the UAE which is a result of the market driven policies, economic and legal reforms spearheaded under the wise and visionary leadership of HH Sheikh Khalifa Bin Zayed Al Nahyan, the President of UAE

and HH Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and ruler of Dubai.

Throughout 2007 the bank implemented its innovative customer-centric strategy, branded 'Transition Towards Excellence' wherein the bank's customers were categorized into six segments. For each of the six segments, based on detailed and extensive surveys and feedback from the customers, tailored and innovative service and product strategies were developed. The successful strategy enabled the bank to increase its market share in the industry, record impressive growth across all business areas and enhance its efficiency, resulting in record profit growth and high returns to the shareholders.

#### Human resources

CBD continues to be at the forefront of providing rewarding careers to UAE nationals wishing to enter the banking industry, as witnessed by the high level of representation of more than 40% of UAE Nationals across all levels of the Bank's hierarchy. 2007 was significant in this respect as it marked the signing of memoranda of understanding with, amongst others, the Emirates National Development Program (ENDP) and both the Higher Colleges of Technology Men's and Women's College. These partnerships will further enhance the close relations of the bank with prestigious institutions that aim to successfully prepare young UAE nationals for their participation in the economy.

A key initiative to support the bank's broader transformation project has been the realignment of the bank's performance management processes whereby every employee has an individual performance scorecard to ensure that the efforts of all staff are oriented towards the achievement of the organization's strategic objectives.

All senior managers participated in a comprehensive leadership development program based upon 360° feedback to ensure that they create a motivational climate in their area of the organization. In the light of the organization's aspirations for the future, an extensive review of employee remuneration was also carried out which provides further impetus towards the realization of a meritocratic culture where high performing employees are explicitly rewarded for their contribution.

#### Corporate banking

Corporate Banking continues to be a core activity that supports the current high level of economic activity throughout the UAE.

The bank focused on enhancing relationship management through segmenting the customers into large Corporate and Commercial (mid-sized), with each segment being managed through a dedicated and experienced team of relationship managers. Management of large corporate relationships was centralized at Head Office. The client service team [CST] concept was introduced wherein a team of experts comprising professionals from different product groups meet and structure comprehensive solutions to the financial needs of the large corporate clients. Sophisticated products were added in the areas of debt capital markets and the treasury related products to meet the unique needs of the Corporate and Commercial client segments.

A treasury sales desk was created to allow the bank to leverage the client relationships and the treasury sales team has become an integral part of client service team [CST] to manage the corporate relationship. The treasury sales team offers solutions and investment products in foreign exchange, interest rates and commodities. Besides, the clients are kept well informed of any movements in markets that are relevant to their businesses.

Commercial banking clients, are serviced through 10 branches by relationship managers who understand the needs and requirements of this segment very well and hence effectively service the financial needs of the clients.

#### Consumer banking

Pursuant to our segment strategy, clients of consumer banking were segmented into High-Networth ['Al Dana'], mid tier ['Personal'] and the modest income group ['Direct']. The key success was the launch of the bank's mortgage product that is based on a risk based pricing model. In a span of five months, the bank booked over AED 500 million in mortgage loans which reflects the growing real estate market in the country.

Another notable achievement was the introduction of the 'Al Dana' wealth management program, an integrated product-and-service solution for the high-net-worth customers, served by dedicated relationship managers. A set of multi-manager funds was launched in July for the 'Al Dana' clients. Capabilities to provide bespoke structured products and distribute capital markets equity offerings were also put in place during the year. The investment group was formed to provide a comprehensive investment solution for various segments of the bank, particularly the 'Al Dana' clients. Besides, a DIFC registered asset management company was incorporated to manage a range of multi-manager fund-of-funds. In the seven months since the launch, the number of 'Al Dana' customers has grown by 40%.

A payroll solution for the corporate and commercial clients, was created through the issuance of the payroll card branded 'Rateb' that provides the convenience of paying salaries to modest-income staff in a cost effective fashion. The bank's strategy to improve its customer service involved a series of initiatives such as introducing the concept of proactive lobby management within branches by service supervisors, re-engineering end-to-end processes and centralizing processing activities away from the branches. Customer service level monitoring is of high priority to the management. Therefore the bank has devised multiple measures to track the state of customer service on an on-going basis. Initiatives include customer satisfaction surveys, both for internal and external customers, mystery shopping programs and benchmarking studies as well as a service tracking dashboard that monitors the customer service levels at all the branches across UAE.

As part of the customer initiative, the bank organized several seminars for its customers on subjects of interest and relevance to its customers for improving their business, financial and management skills.

#### Asset / liability management

A key role of the Treasury department is to ensure proactive balance sheet management, adequate funding and prudent liquidity management to support the bank's asset growth. The asset and liability committee [ALCO] adopted the latest techniques to monitor the market and liquidity risks including day-to-day stress test stimulations. In addition, an ICAAP [Internal Capital Adequacy Assessment Policy] framework was put in place covering interest rate, concentration, strategic and compliance risks.

The bank's proprietary fixed income investments have produced a healthy return over the year, despite the widening of credit spreads due to the fallout from the sub-prime mortgage market crisis in the United States.

#### Risk management

The management implemented several initiatives to enhance its risk management environment, such as, implementation of a state-of-the-art system to improve credit origination, analysis, rating, and pricing, the development of RARORAC framework for credit applications and the setup of multi-level Credit Committees. Furthermore, the bank implemented a multi-dimensional internal rating methodology to be fully Basel II compliant as well as credit scoring methodologies for consumer banking.

The bank rolled out an operational risk management [ORM] plan that includes operational risk policies and procedures to identify, assess, control and report operational risks and quantify potential losses. Regular reports are produced covering OpRisk dashboards, heat maps, and OpRisk register and loss databases.

#### Information technology

Several mission critical systems projects were implemented. A new system for Treasury front and back office covering asset liability management [ALM] and risk management functions was implemented. The system greatly enhanced the treasury department's capability to manage risk and to introduce new treasury related products and services. A corporate credit appraisal system including Basel II compliant automated credit scoring and workflow from credit proposal origination to final approval was implemented, thus significantly improving the turnaround time for processing clients' credit applications and reducing paperwork. To facilitate the centralization of operational functions away from the branches, a document management system was implemented for the trade finance related functions, whereby document imaging and workflow replaced the paper based documents and manual transfer of documents, thus significantly reducing the turnaround time to process customers' LC application.

Major initiatives in support of e-Government in general and DNRD [Dubai Naturalization and Resident Department] in particular were launched. CBD is proud to be one of the first banks to offer the on-line SALIK payment facility in the year 2007.

A customer relationship management [CRM] system that facilitates customer profiling and wallet sizing was implemented, which enabled the relationship managers to effectively monitor and increase the bank's share of the customers' business.

The bank has enhanced capabilities of its electronic banking services. With the unique 'push' and 'pull' SMS services, the customers can literally bank from anywhere in the world, paying utility bills, transferring money and receiving transaction notifications.

The bank's internet solution which provides a multitude of information, coupled with on-line transaction capability, has received several prestigious awards.

#### Distribution channels

The branch infrastructure was aligned to the segmentation strategy by classifying branches into four types i.e. 'full service', 'commercial', 'wealth' and 'standard'. Six 'Al Dana' wealth centers were established and two more will be launched in the next year. Dedicated commercial centers were set up in selected branches to serve the commercial clients, resulting in improved service levels.

To meet the bank's new strategic business requirement, seven more branches have been renovated. These branches now offer a high level of comfort and advanced technological features to service our customers in an improved environment. Interior works have been completed at the Old Town Branch and Sharjah Industrial Branch, which are scheduled to open in early 2008

To supplement the branch network, as part of the alternatively distribution channel strategy, full-function ATMs were introduced, in addition to the 125 current onsite and offsite ATMs across the branch network in the UAE. Besides, 24-hour lobbies that provide more security and privacy to the customers was also part of the branch refurbishment plans.

#### Corporate social responsibility

The bank strives to fully adhere to principles of good corporate governance that are based on the newly released ESCA regulations. Several initiatives were implemented with regard to corporate governance, including formulating a "whistle blowing" policy that is available to all employees, as well as formulating an incident reporting policy.

In line with its commitment to contribute to the wellbeing of the community, the bank continued to provide support to a number of charity organizations, educational establishments and social institutions. The bank's employees also contributed towards community service by donating blood during the blood donation campaigns organized by the Bank and by conducting field visits to the centers working with the physically challenged and people with special needs.

Apart from its usual donation program, the bank donated a sum of AED 20 million towards the Dubai Cares Initiative to support the United Nations Millennium Development program which was launched by His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE.

The bank also participated in the 'stand up and speak out' campaign against poverty and inequality which was organized by the United Nations Development Program. This campaign came with the endorsement of HRH Princess Haya Bin Al Hussein, UN Messenger of Peace and International Humanitarian City. Such efforts clearly affirm the bank's proactive role in contributing to the sustainable development of the UAE.