

Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2008

Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2008

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Independent Auditors' Report

The Shareholders
Commercial Bank of Dubai PSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Commercial Bank of Dubai PSC ("the Bank") and its subsidiary (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

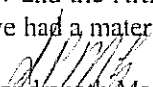
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Bank and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2008, which may have had a material adverse effect on the business of the Group or its financial position.


Vijendranath Malhotra
Registration No: 48 B

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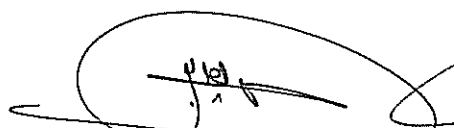
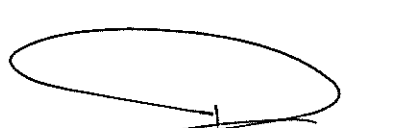
Commercial Bank of Dubai PSC

Consolidated balance sheet

as at 31 December 2008

	Note	2008 AED'000	2007 AED'000
ASSETS			
Cash and balances with Central Bank	6	2,208,583	5,730,341
Due from banks	7	919,719	209,087
Loans and advances	8	28,579,258	20,777,094
Investment securities	9	2,233,307	2,290,410
Property and equipment	10	475,799	415,642
Other assets	11	1,340,635	1,013,443
Total assets		35,757,301	30,436,017
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	12	2,361,169	3,241,929
Customers' deposits	13	25,754,648	21,176,937
Medium term borrowing	14	1,469,200	-
Other liabilities	15	1,469,101	1,258,253
Total liabilities		31,054,118	25,677,119
EQUITY			
Share capital	16	1,411,845	1,129,476
Legal reserve	16	1,379,679	1,257,375
Capital reserve	16	38,638	38,638
General reserve	16	1,100,000	1,070,000
Cumulative changes in fair values of AFS investments	16	(19,187)	457,521
Cumulative changes in fair values of cash flow hedge instruments	16	(5,545)	-
Reserve for proposed bonus issue	16	352,961	282,369
Proposed cash dividend	16	211,777	338,843
Proposed directors' remuneration	16	6,000	6,000
Retained earnings	16	227,015	178,676
Total equity		4,703,183	4,758,898
Total liabilities and equity		35,757,301	30,436,017

The attached notes on pages 7 to 46 form part of these consolidated financial statements.

 H.E. Ahmed Humaid Al Tayer Chairman	 H.E. Saeed Ahmed Ghobash Deputy Chairman	 Mr. Peter Baltussen Chief Executive Officer
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The report of the Auditors is set out on page 2.

Commercial Bank of Dubai PSC

Consolidated statement of income for the year ended 31 December 2008

	<i>Note</i>	2008 AED'000	2007 AED'000
Interest income	17	1,769,482	1,377,951
Interest expense	18	(625,505)	(506,215)
Net interest income		1,143,977	871,736
Net fees and commission income	19	337,800	266,162
Net gains from dealing in foreign currencies		129,564	62,086
Net (losses)/gains from investments at fair value through income statement – held for trading	20	(60,789)	116,865
Net gains from sale of available-for-sale investments		91,885	40,015
Dividend income	21	19,219	15,740
Other income		15,652	11,618
		1,677,308	1,384,222
Provisions for impairment losses		(83,454)	(48,931)
Recoveries		62,099	24,117
Impairment losses on available-for-sale investments	9.3	(396,961)	(11,926)
Provisions for impairment losses on other assets		-	(4,549)
Net interest and other income		1,258,992	1,342,933
General and administrative expenses	22	(443,641)	(371,399)
Depreciation	10	(43,970)	(35,617)
Total expenses		(487,611)	(407,016)
Net profit for the year		771,381	935,917
Earnings per share	23	AED 0.55	AED 0.67

The attached notes on pages 7 to 46 form part of these consolidated financial statements.

Appropriations have been reflected in the consolidated statement of changes in equity.

The report of the Auditors is set out on page 2.

Commercial Bank of Dubai PSC

Consolidated statement of cash flows for the year ended 31 December 2008

	2008 AED'000	2007 AED'000
OPERATING ACTIVITIES		
Profit for the year	771,381	935,917
<i>Adjustments for:</i>		
Depreciation	43,970	35,617
Impairment loss on available-for-sale investments	396,961	11,926
Gain on disposal of property and equipment	(13)	(28)
Investment loss / (income)	380	(90,229)
Net unrealized losses / (gains) on investments at fair value through income statement – held for trading	41,190	(82,391)
Realized gains on sale of available-for-sale investments	(91,885)	(31,600)
Net unrealized (gains) / losses on derivatives	(54,566)	12,171
Impairment loss on investment written off	-	(377)
Amortization of reclassified investments	(1,604)	-
Directors' remuneration paid	(6,000)	(4,000)
	<u>1,099,814</u>	<u>787,006</u>
Increase in statutory reserve with the Central Bank	(425,584)	(329,977)
Increase in loans and advances	(7,802,164)	(8,134,525)
Decrease in due from banks maturing after three months	31,110	-
Increase in other assets	(33,406)	(257,643)
Increase in customers' deposits	4,577,711	7,421,266
(Decrease) / increase in other liabilities	(33,917)	421,231
(Decrease) / increase in due to banks maturing after three months	(1,102,363)	1,248,725
Net cash flow (used in) / from operating activities	<u>(3,688,799)</u>	<u>1,156,083</u>
INVESTING ACTIVITIES		
Purchase of investments	(1,420,846)	(1,300,719)
Purchase of property and equipment	(104,208)	(69,603)
Investment (loss) / income	(380)	90,229
Proceeds from sale of investments	656,579	348,737
Proceeds from sale of property and equipment	94	168
Net cash flow used in investing activities	<u>(868,761)</u>	<u>(931,188)</u>
FINANCING ACTIVITIES		
Medium term borrowing	1,469,200	-
Dividend paid	(338,843)	(473,442)
Share subscription through rights issue	-	309,534
Net cash flow from/(used in) financing activities	<u>1,130,357</u>	<u>(163,908)</u>
Net (decrease) / increase in cash and cash equivalents	<u>(3,427,203)</u>	<u>60,987</u>
Cash and cash equivalents at 1 January	2,720,428	2,659,441
Cash and cash equivalents at 31 December <i>note 24</i>	<u>(706,775)</u>	<u>2,720,428</u>

The attached notes on pages 7 to 46 form part of these consolidated financial statements.

The report of the Auditors is set out on page 2.

Commercial Bank of Dubai PSC

Consolidated statement of changes in equity for the year ended 31 December 2008

	Share capital AED'000	Legal reserve AED'000	Capital reserve AED'000	General reserve AED'000	Cumulative changes in fair values AED'000	Cumulative changes in fair values of hedge instruments AED'000	Retained earnings AED'000	Proposed distributions AED'000	Total AED'000
At 1 January 2007	1,052,093	1,024,247	38,638	870,000	276,724	-	70,948	477,442	3,810,092
Cash dividend paid (45%)	-	-	-	-	-	-	-	(473,442)	(473,442)
Directors' remuneration paid	-	-	-	-	-	-	-	(4,000)	(4,000)
Reversal on sale of available-for-sale investments	-	-	-	-	(31,600)	-	-	-	(31,600)
Revaluation of available-for-sale investments	-	-	-	-	200,471	-	-	-	200,471
Impairment loss on available-for-sale investments	-	-	-	-	11,926	-	-	-	11,926
Share subscription through rights issue	77,383	232,151	-	-	-	-	-	-	309,534
Profit for the year	-	-	-	-	-	-	935,917	-	935,917
Transferred to legal reserve	-	977	-	-	-	-	(977)	-	-
Transfer to general reserve	-	-	-	200,000	-	-	(200,000)	-	-
Proposed bonus issue (25%)	-	-	-	-	-	-	(282,369)	282,369	-
Proposed cash dividend (30%)	-	-	-	-	-	-	(338,843)	338,843	-
Proposed directors' remuneration	-	-	-	-	-	-	(6,000)	6,000	-
At 31 December 2007	1,129,476	1,257,375	38,638	1,070,000	457,521	-	178,676	627,212	4,758,898
Bonus shares (25%)	282,369	-	-	-	-	-	-	(282,369)	-
Cash dividend paid (30%)	-	-	-	-	-	-	-	(338,843)	(338,843)
Directors' remuneration paid	-	-	-	-	-	-	-	(6,000)	(6,000)
Reversal on sale of available-for-sale investments	-	-	-	-	(96,130)	-	-	-	(96,130)
Amortization of re-classified available-for-sale investments	-	-	-	-	8,539	-	-	-	8,539
Revaluation of available-for-sale investments	-	-	-	-	(786,078)	-	-	-	(786,078)
Revaluation of cash flow hedge instrument	-	-	-	-	-	(5,545)	-	-	(5,545)
Impairment loss on available-for-sale investments	-	-	-	-	396,961	-	-	-	396,961
Profit for the year	-	122,304	-	-	-	-	771,381	-	771,381
Transferred to legal reserve	-	-	-	-	-	-	(122,304)	-	-
Transfer to general reserve	-	-	-	30,000	-	-	(30,000)	-	-
Proposed bonus issue (25%)	-	-	-	-	-	-	(352,961)	352,961	-
Proposed cash dividend (15%)	-	-	-	-	-	-	(211,777)	211,777	-
Proposed directors' remuneration	-	-	-	-	-	-	(6,000)	6,000	-
At 31 December 2008	1,411,845	1,379,679	38,638	1,100,000	(19,187)	(5,545)	227,015	570,738	4,703,183

The attached notes on pages 7 to 46 form part of these consolidated financial statements.

The report of the Auditors is set out on page 2.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements for the year ended 31 December 2008

1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC (“the Bank”) was incorporated in Dubai, United Arab Emirates in 1969 and is registered as a Public Shareholding Company (PSC) in accordance with Federal Law No. 8 of 1984 (as amended). The Bank is listed on the Dubai Financial Market.

The consolidated financial statements of the Bank for the year ended 31 December 2008 comprise the results of the Bank and its subsidiary CBD Financial Services LLC (together referred to as “the Group”). The subsidiary was incorporated on 9 March 2005 in Dubai, United Arab Emirates and is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended). The Bank holds a 100% interest in its subsidiary. The Bank’s principal activity is commercial banking while that of its subsidiary is to act as a broker for local shares and bonds. The registered address of the Group is Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

These financial statements were approved by the Board of Directors on 17th of February 2009.

The standards and interpretations that are issued but not yet effective for accounting periods beginning on 1 January 2008 are as follows:

IFRS - 8	Operating Segments: Effective 1 January 2009
IFRS - 2	Share based Payments: Effective 1 January 2009
IFRS - 3	Business Combinations: Effective 1 January 2010
IAS - 23	(Revised) – Borrowing Costs: Effective 1 January 2009
IAS - 1	(Revised) – Presentation of Financial Statements: Effective 1 January 2009
IAS - 32	Financial Instruments Presentation and Disclosure: Effective 1 January 2009
IAS – 27	Consolidated and Separate Financial Statements: Effective 1 January 2010
IAS - 39	Financial Instruments: Effective 1 January 2010
IFRIC - 13	Customer Loyalty Programmes: Effective 1 July 2008
IFRIC – 16	Hedges of a Net Investment in a Foreign Operation: Effective 1 January 2009

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through income statement are measured at fair value;
- Available-for-sale financial assets are measured at fair value; and
- Donated land which is valued at the market value on the date of donation.

c) Functional and presentation currency

The financial statements are presented in United Arab Emirates Dirhams (“AED”), which is the Group’s “functional currency”, rounded to the nearest thousand.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities, except as explained below:

a) Change in accounting policy

In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term. The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments can be applied retrospectively from 1 July 2008.

Pursuant to these amendments, the Group reclassified certain non-derivative financial assets out of trading assets and into available-for-sale investment securities. For details on the impact of these reclassifications, see note 9.4.2 to these consolidated financial statements.

b) Basis of consolidation

Subsidiary

The subsidiary is an entity that is controlled by the Bank. Control exists when the Bank has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date the control commences until the date that control ceases.

Interest in Joint Venture

Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement and requiring unanimous consent for strategic financial operating and operating decisions. Joint ventures are accounted for using equity method and are initially recognized at cost. The consolidated financial statements include the Group's share of income and expenses from the date that joint control commences until the date joint control ceases. When the Group's share of losses exceeds its interest in joint ventures, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the joint ventures.

Transactions eliminated on consolidation

Intra-group balances and any unrealized gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Financial instruments

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. The Group classifies its financial assets at initial recognition in the following categories:

Classification

- *Financial assets at fair value through income statement:* This category has two sub-categories: financial assets held for trading and those designated to be fair valued through income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges.
- *Loans and advances:* Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Group provides money directly to the borrower with no intention of trading the receivable.
- *Held-to-maturity:* Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of and the ability to hold to maturity.
- *Available-for-sale:* Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) loans and advances, (b) held-to-maturity investments or (c) financial assets at fair value through income statement.

Initial recognition

Purchases and sales of investment securities are recognized on the trade date which is the date on which the Group commits to purchase or sell the securities. Loans and advances are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement.

De-recognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership. A financial liability is derecognized when it is extinguished.

Subsequent measurement

Financial assets available-for-sale and investments at fair value through the income statement are subsequently carried at fair value.

Loans and advances and held-to-maturity investments are carried at amortized cost using the effective interest method.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Financial instruments (continued)

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments in the fair value through income statement category are included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale investments are recognized directly in equity, until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. In cases where available-for-sale investments with a fixed maturity are reclassified to held-to-maturity investments, the fair value gains or losses up until the date of the reclassification are held in equity and amortized to the income statement over the remaining life of the held-to-maturity investments using the effective interest rate method.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value is determined using valuation techniques. Valuation techniques include net present value techniques, discounted cash flow methods, and comparison with similar instruments for which market observable prices exist. In all other cases the instruments are measured at acquisition cost, including transaction costs, less impairment losses, if any. The fair values of the Group's investment in funds are based on the net asset value obtained from the fund managers with whom the funds are placed.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparty.

Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Loans and advances are presented net of provisions for impairment. The recoverable amount of individually significant loans and advances is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted. Specific provisions are made against the carrying amount of loans and advances that are identified as being impaired, based on regular reviews of outstanding balances, to reduce these loans and advances to their recoverable amounts. Collective provisions are maintained to reduce the carrying amount of groups of similar loans and advances to their estimated recoverable amounts at the balance sheet date.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Financial instruments (continued)

Impairment (continued)

The expected cash flows for groups of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the provision account are recognized in the income statement.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether there is objective evidence of impairment. If objective evidence of impairment exists for available-for-sale investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement, is removed from equity and recognized in the income statement.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the income statement and is recognised directly in equity.

d) Derivative financial instruments

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.

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 their 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.

Derivative financial instruments with positive market values (unrealised gains) are included in assets and derivative financial instruments with negative market values (unrealised losses) are included in liabilities.

Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as held for trading are taken to the income statement.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Hedging instruments

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

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

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

Hedge accounting

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.

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 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.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the assets, liabilities or group thereof that are attributable to the hedged risk.

Cash flow hedges

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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Hedging instruments (continued)

Hedge accounting (continued)

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 recognized in equity remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedges that do not qualify for hedge accounting

For hedges which 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 income statement for the period.

f) Due from banks

Amounts due from banks are stated at amortised cost less provision for impairment, if any.

g) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for donated land, which is stated at the market value at the date of donation. 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	20 to 30 years
Leasehold improvements	5 years
Furniture, equipment and vehicles	3 to 5 years

i) Provisions

A provision is recognized 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Customers' deposits

Customers' deposits are initially recognised at cost, being the fair value of the consideration received. After initial recognition, all interest bearing deposits, other than liabilities classified as FVPL, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement.

k) Due to banks and medium term borrowing

Amounts due to banks and medium term borrowing are initially recognised at cost, being the fair value of the consideration received, and are subsequently measured at amortised cost using the effective interest method.

l) Employees' terminal benefits and long-term incentive arrangements

Provision is made for amounts payable under the UAE Federal Labour Law applicable to non UAE nationals' accumulated periods of service at the balance sheet date. The Group pays its contributions in respect of UAE nationals under the UAE Pension and Social Security Law. Effective from 1 January 2007, the Group introduced a long term incentive plan. Under this plan the managers under certain grades are eligible for an incentive at the offering date contingent upon the Group's performance up to an award date. The award is the percentage of the actual salary of the eligible managers. The salary includes the basic salary, allowance, national allowance and cost of living allowance as at the effective date.

m) Interest income and expense

Interest income and expense for all interest bearing financial instruments except for those classified as held for trading or designated at fair value, are recognized in 'interest income' and 'interest expense' in the income statement on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment and is not recognized as interest income.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of effective interest rate.

Other fees and commission income earned from the provision of services are recognized as revenue, as and when the services are rendered.

o) Income from investments

Net income from investments at fair value through income statement which arises from gains and losses resulting from disposal, and from the fair valuation of such investments, are recognized when they occur.

p) Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

q) 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 balance sheet date, which are stated at historical cost, are translated at the foreign exchange rate ruling at that 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 to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at mid market rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement.

r) 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 maturing within three months of the balance sheet date.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for reporting is based on business segments.

t) Use of estimates and judgments

The preparation of the 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. In particular, considerable management judgment is required in respect of the following issues:

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortized cost.

Impairment of available-for-sale investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, or operational and financing cash flows.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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.

As part of its management of risks, the Group acquired and implemented systems for the management of its Credit Risk, Market Risk, Liquidity Risk and Asset and Liability Management (ALM) Risk. These systems include credit origination, analysis, rating, pricing and approval. For treasury, the Group has acquired systems for front, mid, and back offices to efficiently manage market risk, liquidity risk, and ALM risk. For Operational risk, the Group has developed (internally), tools that can allow the analysis, quantification, and reporting of operational risk events/losses that are faced on a granular cluster level with the objective of increasing the effectiveness of the process. The Group has already approved the plan for its automation and systems from different vendors are being evaluated which is expected to be in place by the first half of year 2009.

In addition, the Group is also exposed to other risks that are managed along with the key risks, and these are quantified, monitored and reported as part of the Group's Internal Capital Adequacy Assessment Policy (ICAAP) Framework. Such risks include, amongst others, interest rate risk in the banking book, concentration risk, strategic risk, business risk, and legal and compliance risk.

b) Risk management framework

The Board of Directors (the "Board") is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored and controlled effectively within the pre-set limits. The Board is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group. Risk management policies and systems are reviewed regularly so as to reflect changes in market conditions, products and services offered.

In order to discharge this responsibility effectively, the Board has established the Group Asset and Liability (ALCO) Committee, Credit Risk Committee, Executive Committee, and Management Committee, Investment Committee, Business Committee and IT steering Committee. These committees are responsible for developing and monitoring Group risk management policies in each of their specified areas. These committees comprise key Group officers, who convene frequently to appraise the Group's risk profile and various risk issues.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Risk management framework (continued)

Credit Risk which is managed by the Group's Credit Risk Committee includes a continuous review of credit limits, policies and procedures, the approval of specific exposures and workout situations, constant re-evaluation of the loans portfolio and the sufficiency of provisions thereof.

The Asset and Liability Committee (ALCO) monitors and controls market and liquidity risks primarily by means of a gap analysis of maturities of assets and liabilities day-to-day and stress test simulation analysis. In addition, the Group has also built its Internal Model based on a market risk management capability including Value-at-Risk and stress testing analysis.

Operational Risk is managed by the Management Committee (MC) with the support of the Risk Management Department and various other units/divisions across the Group including IT.

The Group's risk management policies are established to identify and analyze 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 on an ongoing basis so as to reflect changes in market conditions, products and services offered.

c) Credit risk

Credit risk is the risk of 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 loans and advances, amounts due from banks and non-trading investments. For risk management purposes, credit risk arising on trading investments is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of certain levels of credit risk to the Group Credit Risk Committee, which is responsible for oversight of the Group's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishment of an authorization structure and limits for the approval and renewal of credit facilities. Lending authorities have been established at various levels together with a framework of dual/multiple credit approval delegated authorities. Larger facilities require approval by the Group Credit Risk Committee and / or the Board of Directors, as appropriate;
- Establishing limits; actual levels of exposure are regularly reviewed at Group Credit Risk Committee or Board level, as appropriate;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties;

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Credit risk (continued)

- Developing and maintaining the Group's risk grading in each category of exposures according to the degree of risk of financial loss faced and to ensure focus of management on the attendant risks. The risk grading system is used in determining whether impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Executive Committee and is subject to regular reviews by the Risk Management Department;
- Designing credit review procedures so as to identify, at an early stage, exposures which require more detailed monitoring and review; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

In addition, Internal Audit undertakes regular audits of business units and Group credit processes.

Exposure to credit risk

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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Credit risk (continued)

Exposure to credit risk (continued)

	Loans and advances		Due from banks		Non-trading investments	
	2008	2007	2008	2007	2008	2007
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Carrying amount	28,579,258	20,777,094	919,719	209,087	2,177,796	1,992,313
Individually impaired						
Grade 5: Substandard (a)	5,005	9,050	-	-	-	-
Grade 6: Substandard (b)	189,159	175,254	-	-	-	-
Grade 7: Doubtful	24,200	51,174	-	-	-	-
Grade 8: Loss	47,148	41,808	-	-	-	-
Gross amount	265,512	277,286	-	-	-	-
Interest suspended	(72,082)	(79,103)	-	-	-	-
Specific provision for impairment	(126,601)	(136,745)	-	-	-	-
Carrying amount	66,829	61,438	-	-	-	-
Collectively impaired						
Grades 5 & 6: Substandard	45,506	18,762	-	-	-	-
Grade 7: Doubtful	18,399	4,872	-	-	-	-
Grade 8: Loss	7,114	2,861	-	-	-	-
Gross amount	71,019	26,495	-	-	-	-
Interest suspended	(23,434)	(5,313)	-	-	-	-
Collective provision for impairment	(39,549)	(21,182)	-	-	-	-
Carrying amount	8,036	-	-	-	-	-
Past due but not impaired						
Watch list – overdue by less than 90 days	177,625	158,495	-	-	-	-
Carrying amount	177,625	158,495	-	-	-	-
Past due comprises:						
Less than 30 days	68,325	62,898	-	-	-	-
30 – 60 days	68,922	65,957	-	-	-	-
60 – 90 days	40,378	29,640	-	-	-	-
Carrying amount	177,625	158,495	-	-	-	-
Neither past due nor impaired						
Grades 1,2 & 3: lowest, minimal & moderate risk	27,995,314	20,365,720	919,719	209,087	2,177,796	1,992,313
Grade 4: showing signs of Weakness	396,704	233,941	-	-	-	-
General provision for impairment	(65,250)	(42,500)	-	-	-	-
Carrying amount	28,326,768	20,557,161	919,719	209,087	2,177,796	1,992,313
Total carrying amount	28,579,258	20,777,094	919,719	209,087	2,177,796	1,992,313

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Credit risk (continued)

Impaired loans and advances and non-trading investments

Impaired loans and advances and non-trading investments are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

The Group's current Credit Risk Rating Methodology comprises 8 grades as set out below. The grades 1 to 3 reflect performing accounts, grade 4 reflects irregular accounts and grades 5 to 8 reflect defaulted / non-performing accounts.

Grades	Risk grade	Risk significance
1	Grade 1a	Considered Good- Lowest Risk
2	Grade 1b	Considered Good – Minimal Risk
3	Grade 1c	Considered Good – Moderate Risk
4	Grade 2	Showing Signs of weakness
5	Grade 3a	Substandard “a”- Interest Suspended (Payment of Principal or Interest is in arrears beyond 3 months)
6	Grade 3b	Substandard “b”- Provision Starts (Payment of Principal or Interest is in arrears beyond 3 months)
7	Grade 4	Doubtful of recovery
8	Grade 5	Loss (fully provided for, and written off)

The Group upgraded its Credit Risk Rating Methodology to make it in line with the requirements set out in the Basel II Accord. The new methodology has been implemented and is running on a parallel basis along with the previous methodology. The Group intends to migrate to the new Methodology after complete testing of the new rating system, data migration and consistency.

The new Rating Methodology, which has been internally developed based on actual historical data, has a 14-grade framework, whereby:

- The first 10 grades are assigned to non-defaulting borrowers; and
- The last 4 grades are for defaulting borrowers.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Credit risk (continued)

The new methodology provides a multi-dimensional approach to the Group's Credit Risk Rating, where credit is assessed and rated on 2 dimensions, as follows:

- 1st Dimension: which assesses / rates the borrower's probability of Default (PD); and
- 2nd Dimension: which assesses / rates the facility and the Loss-Given Default (LGD).

Both dimensions create a Credit-Risk Rating Grid/Matrix which plays a key role in making pricing, approval, and credit monitoring more efficient.

Past due but not impaired loans

These are the loans where contractual interest or principal payments are past due by 90 days but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

These are loans with renegotiated terms that have been restructured due to deterioration in the borrower's financial position. The Group does not usually offer concessions, rather it reschedules the outstanding to improve the likelihood of collection. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss components that relate to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write - off policy

The Group writes off a loan / investment (and any related allowances for impairment) when the Group Credit Risk Committee determines that the loan / investment 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Credit risk (continued)

Set out below is an analysis of the gross and net (of provisions for impairment) amounts of individually impaired assets by risk grade;

	Loans and advances		Due from banks		Non-trading investments	
			AED'000			
	Gross	Net	Gross	Net	Gross	Net
31 December 2008						
Grades 5&6: individually impaired	194,164	66,829	-	-	-	-
Grade 7: individually impaired	24,200	-	-	-	-	-
Grade 8: individually impaired	47,148	-	-	-	-	-
Total	<u>265,512</u>	<u>66,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
31 December 2007						
Grades 5&6: individually impaired	184,304	61,438	-	-	-	-
Grade 7: individually impaired	51,174	-	-	-	-	-
Grade 8: individually impaired	41,808	-	-	-	-	-
Total	<u>277,286</u>	<u>61,438</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Collaterals

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 on a periodic basis. Generally, collateral is not held against non-trading investments and amounts due from banks, and no such collateral was held at 31 December 2008 or 2007.

The management estimates the fair value of collaterals and other security enhancements held against individually impaired loans and advances to be approximately AED 35.7 million (2007: AED 24 million) as at the reporting date.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Credit risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk is shown below:

	Loans and advances		Due from banks		Non-trading investments	
	2008	2007	2008	2007	2008	2007
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Carrying amount	28,579,258	20,777,094	919,719	209,087	2,177,796	1,992,313
<i>Concentration by sector</i>						
Commercial and Business:-						
Agriculture & allied activities	26,174	23,227	-	-	-	-
Mining & quarrying	204,312	100,485	-	-	5,949	-
Manufacturing	1,685,909	1,192,886	-	-	-	-
Construction	3,635,360	2,631,925	-	-	53,591	241,183
Trade	9,081,784	6,539,564	-	-	-	-
Transport & communication	600,995	288,600	-	-	7,301	9,336
Services	2,634,890	2,369,413	-	-	50,574	67,241
Total Commercial and Business	17,869,424	13,146,100	-	-	117,415	317,760
Banks and financial institutions	514,719	490,508	919,719	209,087	952,223	1,047,652
Government and public sector entities	636,330	800,642	-	-	1,108,158	626,901
Personal-schematic	2,683,886	1,287,813	-	-	-	-
Personal-business	6,321,111	4,211,398	-	-	-	-
Others	880,704	1,125,476	-	-	-	-
	28,906,174	21,061,937	919,719	209,087	2,177,796	1,992,313
Less: Provisions for impairment	(326,916)	(284,843)	-	-	-	-
Total carrying amount	28,579,258	20,777,094	919,719	209,087	2,177,796	1,992,313
	Loans and advances		Due from banks		Non-trading investments	
	2008	2007	2008	2007	2008	2007
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Concentration by location</i>						
UAE	28,011,243	20,076,708	895,101	76,932	1,775,962	1,400,165
GCC	531,285	682,021	2,609	45,335	341,866	460,740
Other Arab countries	-	-	284	887	-	-
Europe	-	-	19,105	82,801	59,968	131,408
USA	-	-	2,265	2,391	-	-
Asia	36,730	18,365	221	577	-	-
Others	-	-	134	164	-	-
	28,579,258	20,777,094	919,719	209,087	2,177,796	1,992,313

The concentrations by location for loans and advances and amounts due from banks are measured based on the residential status of the borrower. The concentration by location for non-trading investments is measured based on the location of the issuer of the security.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Credit risk (continued)

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 a counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Group's ICAAP framework and Operational Risk Management.

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. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

Management of liquidity risk

Liquidity risk is managed by the Treasury and ALM department in line with the regulatory and internal policies and guidelines. The Group's approach to managing liquidity risk is to ensure that it has adequate funding from diversified sources at all times and that it can withstand any major shocks to its liquidity position. Funds are raised using a broad range of instruments including customer deposits, medium term borrowings, money market instruments and capital. The treasury and ALM department monitor 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 policy is set by the Board of Directors and is subject to annual review. Adherence to the policies is monitored by the Risk Management Department and the ALCO.

Exposure to liquidity risk

The key measures used by the Group for measuring liquidity risk are advances to stable resources, which is a regulatory measure, and the ratio of net liquid assets, i.e. total assets by maturity against total liabilities by maturity.

Details of the Group's net liquid assets are summarized in the following table by 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 remaining period at the balance sheet date to the contractual maturity date.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2008 was as follows:

	Total	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
	AED'000				
Assets					
Cash and balances with Central Bank	2,208,583	2,208,583	-	-	-
Due from banks	919,719	919,719	-	-	-
Loans and advances	28,579,258	11,258,838	1,824,814	9,356,063	6,139,543
Investment securities	2,233,307	-	90,362	1,139,644	1,003,301
Property and equipment	475,799	2,389	1,278	91,964	380,168
Other assets	1,340,635	1,340,635	-	-	-
Total assets	35,757,301	15,730,164	1,916,454	10,587,671	7,523,012
Liabilities and equity					
Due to banks	2,361,169	2,214,807	146,362	-	-
Customers' deposits	25,754,648	20,185,446	3,558,017	2,010,368	817
Medium term borrowing	1,469,200	-	-	1,469,200	-
Other liabilities	1,469,101	1,469,101	-	-	-
Equity	4,703,183	217,777	-	-	4,485,406
Total liabilities and equity	35,757,301	24,087,131	3,704,379	3,479,568	4,486,223

The maturity profile of the assets and liabilities at 31 December 2007 was as follows:

	Total	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
	AED'000				
Assets					
Cash and balances with Central Bank	5,730,341	5,730,341	-	-	-
Due from banks	209,087	177,977	-	31,110	-
Loans and advances	20,777,094	8,527,644	2,000,584	6,119,771	4,129,095
Investment securities	2,290,410	123,137	77,935	558,051	1,531,287
Property and equipment	415,642	481	4,568	-	410,593
Other assets	1,013,443	1,013,443	-	-	-
Total assets	30,436,017	15,573,023	2,083,087	6,708,932	6,070,975
Liabilities and equity					
Due to banks	3,241,929	1,993,204	1,248,725	-	-
Customers' deposits	21,176,937	18,852,614	2,157,735	165,771	817
Other liabilities	1,258,253	1,258,253	-	-	-
Equity	4,758,898	344,843	-	-	4,414,055
Total liabilities and equity	30,436,017	22,448,914	3,406,460	165,771	4,414,872

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

The tables above show undiscounted cash flows on the Group's financial assets and liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows may vary from this analysis.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and credit commitments.

	Total	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
2008	← AED'000 →				
Contingent liabilities	10,795,497	2,623,080	2,203,250	5,019,553	949,614
Credit commitments	3,839,843	2,019,113	694,640	694,640	431,450
Total	14,635,340	4,642,193	2,897,890	5,714,193	1,381,064
2007					
Contingent liabilities	9,643,736	1,856,715	1,379,546	5,804,919	602,556
Credit commitments	3,073,219	1,615,998	555,955	555,955	345,311
Total	12,716,955	3,472,713	1,935,501	6,360,874	947,867

e) Market risks

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 prudent limits.

Management of market risks

The Board of Directors has set risk limits based on sensitivity analyses and notional limits which are closely monitored by the Middle Office (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 in the ALCO. The Group Risk Management Department is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation, subject to review and approval by the ALCO.

Exposure to market risks – trading portfolios

The principal tools used to measure and control market risk exposure within the Group's trading portfolios are factor sensitivity limits and Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based on historical and Monte Carlo simulation taking into account market data for the last five years.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) *for the year ended 31 December 2008*

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risks (continued)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even with the model used there is a one per cent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day, although real time limit monitoring mitigates this risk somewhat.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for specific foreign exchange, interest rate, and equity price risks. The overall structure of VaR limits is subject to review and approval by the ALCO. VaR limits are allocated only to the trading portfolio. VaR is measured at least daily for more actively traded portfolios. Daily reports of utilization of VaR limits are produced by the Group Risk Management department and periodic summaries are submitted to the ALCO.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading portfolios and the Group's overall position.

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 ALCO is monitoring compliance with these limits and is assisted by the Group Risk Management Department for the day-to-day monitoring of activities.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risks (continued)

Overall non-trading 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 non-trading activities.

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:

Currency	Net spot Position	Forward Position	Net exposure	
	AED'000		2008	2007
US Dollar	439,664	(736,932)	(297,268)	(641,979)
Great Britain Pound	(44,448)	44,789	341	3,353
Japanese Yen	24,695	(24,377)	318	1,685
Euro	(500,471)	502,144	1,673	4,295
Others	(11,928)	13,475	1,547	118,256

f) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors (other than credit, market and liquidity risks) such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

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 and creativity.

The primary responsibility for the development and implementation of controls to address operational risk vests with the Senior Management of the Group, and 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 authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Operational risks (continued)

- Documentation of controls and procedures;
- 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;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards (through the Group's approved and functional Code of Ethics);
- Risk mitigation, including insurance where this is effective; and
- Whistle Blowing and Incident Reporting Policies which are operational in 2009.

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks and has set up an Operational Risk Management Unit for the purpose of identifying and managing risk. As part of the Operational Risk Management Plan (ORM Plan), implemented Group-wide, the Operational Risk Management Unit (ORMU) prepares various reports on a quarterly basis including:

- Departmental and Group-wide Operational Risk ("Op Risk") dashboards covering all key risks faced by the cluster;
- OpRisk Heat Maps covering the clusters;
- Operational Risk Register;
- Analysis of Operational Risk Loss data; and
- Analysis/update of Operational Risk Loss database.

Moreover, the ORMU conducts an assessment of the Group's 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. The results of these reviews are discussed with the business units to which they relate, with summaries submitted to the Board and Senior Management of the Group.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Capital management

Regulatory capital

The Group's lead regulator, the Central Bank of the UAE, 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 increase returns for shareholders; and
- Comply with regulatory capital requirements set by the Central Bank of the UAE.

In implementing current capital requirements, the Group calculates the Capital Adequacy ratio in accordance with the guidelines issued by the Central Bank of the UAE prescribing the ratio of total capital to total risk-weighted assets.

The Group's regulatory Capital Adequacy ratio, set by the Central Bank of the UAE at a minimum level of 10%, is analyzed into two tiers as follows:

	31 Dec, 2008 AED'000	31 Dec, 2007 AED'000
Tier 1 capital		
Share capital	1,764,806	1,411,845
Statutory reserve	1,379,679	1,257,375
General reserve	1,100,000	1,070,000
Retained earnings	227,015	178,676
Total	4,471,500	3,917,896
Tier 2 capital		
Fair value reserve	(24,732)	205,884
Deductions from Tier 1 & Tier 2		
Investments in subsidiaries	(10,000)	(10,000)
Total capital base (a)	4,436,768	4,113,780
Risk Weighted Assets:		
On balance sheet	28,362,258	21,304,701
Off balance sheet	5,716,950	4,378,046
Risk weighted assets (b)	34,079,208	25,682,747
Capital adequacy ratio (%) [(a)/(b)*100]	13.02%	16.0%

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Capital management (continued)

The Bank and its subsidiary have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year.

Capital allocation

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, and Reputational Risk are all part of the ICAAP.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the newly implemented Credit Appraisal System, which became functional in 2008.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

5. FINANCIAL ASSETS AND LIABILITIES

The table below sets out the Group's classification of each class of financial assets and liabilities:

	Fair value through P/L	Held-to- maturity	Loans and advances	Available- For-sale	Other amortized cost	Total carrying amount
	← AED'000 →					
31 December 2008						
Cash and balances with Central Bank	-	-	-	-	2,208,583	2,208,583
Due from banks	-	-	-	-	919,719	919,719
Loans and advances	-	-	28,579,258	-	-	28,579,258
Investment securities	55,511	1,139,746	-	1,038,050	-	2,233,307
Other assets	54,380	-	-	-	1,286,255	1,340,635
	<u>109,891</u>	<u>1,139,746</u>	<u>28,579,258</u>	<u>1,038,050</u>	<u>4,414,557</u>	<u>35,281,502</u>
Due to banks	-	-	-	-	2,361,169	2,361,169
Customers' deposits	-	-	-	-	25,754,648	25,754,648
Medium term borrowing	-	-	-	-	1,469,200	1,469,200
Other liabilities	17,530	-	-	-	1,398,941	1,416,471
	<u>17,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,983,958</u>	<u>31,001,488</u>

	Fair value through P/L	Held-to- maturity	Loans and advances	Available- For-sale	Other amortized cost	Total carrying amount
	← AED'000 →					
31 December 2007						
Cash and balances with Central Bank	-	-	-	-	5,730,341	5,730,341
Due from banks	-	-	-	-	209,087	209,087
Loans and advances	-	-	20,777,094	-	-	20,777,094
Investment securities	298,097	252,580	-	1,739,733	-	2,290,410
Other assets	22,259	-	-	-	991,184	1,013,443
	<u>320,356</u>	<u>252,580</u>	<u>20,777,094</u>	<u>1,739,733</u>	<u>6,930,612</u>	<u>30,020,375</u>
Due to banks	-	-	-	-	3,241,929	3,241,929
Customers' deposits	-	-	-	-	21,176,937	21,176,937
Medium term borrowing	-	-	-	-	-	-
Other liabilities	34,430	-	-	-	1,175,163	1,209,593
	<u>34,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,594,029</u>	<u>25,628,459</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

6. CASH AND BALANCES WITH CENTRAL BANK

	2008 AED'000	2007 AED'000
Cash on hand	577,570	488,013
Balances with the Central Bank	10,743	647,642
Statutory reserves with the Central Bank	1,620,270	1,194,686
Negotiable certificates of deposit with the Central Bank	-	3,400,000
	<u>2,208,583</u>	<u>5,730,341</u>

7. DUE FROM BANKS

	2008 AED'000	2007 AED'000
Current and demand deposits	30,870	51,408
Placements	888,849	157,679
	<u>919,719</u>	<u>209,087</u>

Due from banks include current and demand deposits of AED 25 million (2007: AED 39 million) and nil placements (2007: AED 62 million) with banks outside UAE.

8. LOANS AND ADVANCES

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

	2008 AED'000	2007 AED'000
Overdrafts	8,327,210	6,632,092
Loans	18,165,365	12,727,528
Advances against letters of credit and trust receipts	1,068,273	772,156
Bills discounted	1,345,326	930,161
Gross loans and advances	<u>28,906,174</u>	<u>21,061,937</u>
Less: provisions for impairment losses	(326,916)	(284,843)
Net loans and advances	<u>28,579,258</u>	<u>20,777,094</u>

The movements in provisions for impairment losses are as follows:

	2008 AED'000	2007 AED'000
Balance at 1 January	284,843	256,794
Amounts written off during the year	(10,067)	(22,921)
Charge for the year	83,454	48,931
Interest not recognized	30,785	26,156
Recoveries	(62,099)	(24,117)
	<u>326,916</u>	<u>284,843</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

9. INVESTMENT SECURITIES

	Domestic AED'000	Regional AED'000	International AED'000	Total AED'000
31 December 2008				
Held for trading				
Equities	22,090	-	1,192	23,282
Fund of funds	-	32,229	-	32,229
Available-for-sale				
Equities	458,700	15,304	-	474,004
Fund of funds	30,005	278,262	-	308,267
Fixed rate securities				
- Government	-	-	41,872	41,872
- Others	-	-	18,096	18,096
Floating rate securities				
- Government	-	-	-	-
- Others	147,002	48,300	-	195,302
Others	509	-	-	509
Held-to-maturity				
Fixed rate securities				
- Government	254,199	-	-	254,199
Floating rate securities				
- Government	812,087	-	-	812,087
- Others	73,460	-	-	73,460
Total investment securities	1,798,052	374,095	61,160	2,233,307

	Domestic AED'000	Regional AED'000	International AED'000	Total AED'000
31 December 2007				
Held for trading				
Equities	236,278	-	-	236,278
Fund of funds	-	61,819	-	61,819
Available-for-sale				
Equities	725,441	9,336	-	734,777
Fund of funds	-	401,561	-	401,561
Fixed rate securities				
- Government	219,554	-	44,627	264,181
- Others	23,815	-	32,661	56,476
Floating rate securities				
- Government	183,600	-	-	183,600
- Others	47,011	49,843	-	96,854
Others	2,284	-	-	2,284
Held-to-maturity				
Fixed rate securities				
- Government	-	-	54,120	54,120
Floating rate securities				
- Government	125,000	-	-	125,000
- Others	73,460	-	-	73,460
Total investment securities	1,636,443	522,559	131,408	2,290,410

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

9. INVESTMENT SECURITIES (continued)

9.1 Fund of funds investments

This represents investments in global and regional asset management funds as a part of the Group's strategy of diversifying its holdings.

9.2 Investment in joint venture

The Group has entered into a joint venture with Rasmala Investments Holdings Ltd ('Rasmala') and formed a Company named "Rasmala CBD Asset Management Ltd". The share capital of the Company is US Dollars 1,000,000 of which 30% is owned by the Group and the remaining 70% is owned by Rasmala. The principal activity of the company is asset management.

9.3 Impairment loss on available-for-sale investments

During the year, the market value of some of the Group's strategic equity investments in local and regional listed companies, classified as available-for-sale investments have been dropped. Although the respective companies are not impaired, in line with IFRS, the Group has booked an impairment loss that aggregates to AED 397 million (2007: AED 12 million). Accordingly, this impairment loss has been removed from equity and recognized in the income statement in compliance with the Group's accompanying policy.

9.4 Reclassification of investment securities

9.4.1 The Group has reclassified certain fixed maturity bonds amounting to AED 931 million, being the fair value as at 1 October 2008 from available-for-sale investments to held-to-maturity investments primarily due to change in the intentions and ability of the Group to hold these bonds until maturity.

9.4.2 The Group, as a result of the adoption of amendments from the IASB as explained in note 3 (a) to these consolidated financial statements, has reclassified investments amounting to AED 84 million, being the fair value as at 1 July 2008, from the fair value through income statement classification to the available-for-sale investments category. As there was no trading in the reclassified investments during the last 2 years, the management considers that the reclassification provides a more appropriate presentation of the investments in accordance with the Group's long-term investment strategy. As required by the amendments, the effects of such a reclassification are set out below:

	2008 AED '000
Before reclassification	
Unrealised fair value loss recognized in income statement	(8,629)
After reclassification	
Unrealised fair value loss recognized in cumulative changes in fair values	(60,481)

The unrealized fair value loss recognized in cumulative change in fair values in equity was subsequently charged to income statement as impairment losses, as these securities were considered impaired by the management.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

10. PROPERTY AND EQUIPMENT

	Freehold land and buildings	Leasehold improve- ments	Furniture, equipment & vehicles AED'000	Capital work in progress	Total
	←-----→				
Cost					
At 1 January 2008	428,575	22,445	143,974	26,290	621,284
Additions during the year	10,999	9,299	39,298	44,612	104,208
Transfer from capital work in progress	-	-	-	-	-
Disposals	-	-	(463)	-	(463)
At 31 December 2008	<u>439,574</u>	<u>31,744</u>	<u>182,809</u>	<u>70,902</u>	<u>725,029</u>
Depreciation					
At 1 January 2008	98,902	16,556	90,184	-	205,642
Charge for the year	14,360	2,778	26,832	-	43,970
On disposals	-	-	(382)	-	(382)
At 31 December 2008	<u>113,262</u>	<u>19,334</u>	<u>116,634</u>	<u>-</u>	<u>249,230</u>
Net book values					
At 31 December 2008	<u>326,312</u>	<u>12,410</u>	<u>66,175</u>	<u>70,902</u>	<u>475,799</u>

	Freehold land and buildings	Leasehold improve- ments	Furniture, equipment & vehicles AED'000	Capital work in progress	Total
	←-----→				
Cost					
At 1 January 2007	373,127	18,897	107,938	53,778	553,740
Additions during the year	4,437	3,548	37,379	24,239	69,603
Transfer from capital work in progress	51,011	-	577	(51,588)	-
Disposals	-	-	(1,920)	(139)	(2,059)
At 31 December 2007	<u>428,575</u>	<u>22,445</u>	<u>143,974</u>	<u>26,290</u>	<u>621,284</u>
Depreciation					
At 1 January 2007	85,072	14,651	72,221	-	171,944
Charge for the year	13,830	1,905	19,882	-	35,617
On disposals	-	-	(1,919)	-	(1,919)
At 31 December 2007	<u>98,902</u>	<u>16,556</u>	<u>90,184</u>	<u>-</u>	<u>205,642</u>
Net book values					
At 31 December 2007	<u>329,673</u>	<u>5,889</u>	<u>53,790</u>	<u>26,290</u>	<u>415,642</u>

Freehold land and buildings includes the market value of a plot of land donated to the Group by the Government of Dubai in 1998. The market value of AED 38,638,000 was determined by independent appraisers at that time and was credited to a capital reserve.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

11. OTHER ASSETS

	2008 AED'000	2007 AED'000
Interest receivable	198,185	163,974
Accounts receivable and prepayments	106,850	57,015
Customer's indebtedness for acceptances	975,979	714,314
Positive fair value of derivatives	54,380	22,259
Accounts receivable from brokerage customers	5,241	55,881
	<u>1,340,635</u>	<u>1,013,443</u>

12. DUE TO BANKS

	2008 AED'000	2007 AED'000
Current and demand deposits	1,273,322	372,902
Term loans and deposits	1,087,847	2,869,027
	<u>2,361,169</u>	<u>3,241,929</u>

13. CUSTOMERS' DEPOSITS

	2008 AED'000	2007 AED'000
Current and demand accounts	8,412,308	7,678,831
Savings accounts	1,126,266	1,007,177
Time deposits (note 13.1)	16,216,074	12,490,929
	<u>25,754,648</u>	<u>21,176,937</u>

- 13.1 The Group has received deposits aggregating to AED 1,841.526 million in October and November 2008 from UAE Ministry of Finance. These deposits were received in two tranches; the first deposit is for AED 916.736 million for 3 years and second deposit is for AED 924.790 million for 5 years, subject to certain conditions to be adhered to during the tenure of the deposits and are payable in lump sum on maturity. The deposits carries interest rates of US Treasury 5 year notes plus 120 basis points or 4%, which ever is higher, payable on quarterly basis.

14. MEDIUM TERM BORROWING

During the year, the Group entered into a 3 year USD 400 million syndicated loan arrangement with an option to roll over on a quarterly or semi-annual basis. The arrangement carries interest at the rate of 3 month LIBOR plus 75 basis points payable on a quarterly basis.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

15. OTHER LIABILITIES

	2008 AED'000	2007 AED'000
Interest payable	158,598	110,341
Employees' terminal benefits	52,630	42,660
Accounts payable and unearned income	232,788	289,635
Negative fair value of derivatives	17,530	34,430
Liabilities under acceptances	975,979	714,314
Accounts payable to brokerage customers	31,576	66,873
	<u>1,469,101</u>	<u>1,258,253</u>

16. EQUITY

Share capital

The issued and fully paid up ordinary share capital as at 31 December 2008 comprised 1,411,845,525 ordinary shares of AED 1 each (2007: 1,129,476,420 shares of AED 1 each).

Bonus shares

The proposed 25% bonus issue to the shareholders for the year ended 31 December 2007 was approved by the shareholders in their Annual General Meeting held on 27 February 2008, and transferred to the share capital in 2008 after the completion of all legal formalities.

Retained earnings

These include an amount of AED nil (2007: AED 10 million) representing bonus shares issued by the subsidiary Company, approved in its Executive Committee meeting held on 17 January 2007.

Legal reserve

Federal Law No. 8 of 1984 (as amended), Union Law No. 10 of 1980 and the Bank's Articles of Association require that a minimum of 10% of the annual net profit be transferred to a legal reserve, until such time as this reserve equals 50% of share capital. The legal reserve is not available for distribution except under the circumstances stipulated by the relevant law.

Capital reserve

This reserve represents the market value of the donated land at the date of donation as more fully explained in note 10, and is not available for distribution to the shareholders.

General reserve

The general reserve is a reserve available for distribution.

Cumulative changes in fair values

This represents the net change in the fair values of available-for-sale investments and derivatives held as cash flow hedges held by the Group and is not available for distribution to the shareholders.

Proposed distributions

The Board of Directors proposes the following distributions for approval by the Annual General Meeting of the shareholders to be held on 18th March 2009.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

16. EQUITY (CONTINUED)

i) *Proposed bonus issue*

A bonus issue of 25 per cent in the ratio of 2.5 shares for every 10 shares held (2007: 25 per cent) is proposed. This amount will be transferred to share capital on completion of all legal formalities.

ii) *Proposed cash dividend*

A cash dividend of 15 per cent of the share capital amounting to AED 211,777,000 (2007: AED 338,843,000) is proposed representing a dividend of AED 0.15 per share (2007: AED 0.30 per share).

iii) *Proposed directors' remuneration*

In accordance with Article 118 of Federal Law No.8 of 1984, directors' remuneration amounting to AED 6,000,000 (2007: AED 6,000,000) has been treated as an appropriation from equity.

17. INTEREST INCOME

	2008 AED'000	2007 AED'000
Loans and advances	1,647,007	1,213,336
Negotiable certificates of deposit with the Central Bank	30,041	110,575
Due from banks	15,933	22,350
Held-to-maturity investments	22,345	15,262
Available-for-sale investments	42,399	16,428
Derivative financial instruments	11,757	-
	<u>1,769,482</u>	<u>1,377,951</u>

18. INTEREST EXPENSE

	2008 AED'000	2007 AED'000
Due to banks	115,550	36,536
Customers' deposits	490,535	469,679
Medium term borrowing	19,420	-
	<u>625,505</u>	<u>506,215</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

19. NET FEES AND COMMISSION INCOME

	2008 AED'000	2007 AED'000
Lending activities	66,002	52,652
Trade finance activities	145,262	121,606
Others	126,536	91,904
	<u>337,800</u>	<u>266,162</u>

20. NET (LOSSES) / GAINS FROM INVESTMENTS AT FAIR VALUE THROUGH INCOME STATEMENT-HELD FOR TRADING

	2008 AED'000	2007 AED'000
Net realized (losses) / gains on sale of investments at fair value through income statement	(19,599)	34,474
Net unrealized (losses) / gains on investments at fair value through income statement	(41,190)	82,391
	<u>(60,789)</u>	<u>116,865</u>

21. DIVIDEND INCOME

	2008 AED'000	2007 AED'000
Investments at fair value through income statement – held for trading	3,456	6,623
Available-for-sale investments	15,763	9,117
	<u>19,219</u>	<u>15,740</u>

22. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff related expenses of AED 338.10 million (2007: AED 270.5 million).

23. EARNINGS PER SHARE

The earnings per share is based on the Group's profit attributable to shareholders for the year amounting to AED 771.381 million (2007: AED 935.917 million), and on the weighted average number of shares in issue totaling 1,411,845,525 (2007: 1,400,298,019).

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Notes to the consolidated financial statements (continued)
for the year ended 31 December 2008

24. CASH AND CASH EQUIVALENTS

	2008 AED'000	2007 AED'000
Cash on hand	577,570	488,013
Balances with the Central Bank	10,743	647,642
Negotiable certificates of deposit with the Central Bank	-	3,400,000
Due from banks maturing within three months	919,719	177,977
	1,508,032	4,713,632
Due to banks maturing within three months	(2,214,807)	(1,993,204)
	<u>(706,775)</u>	<u>2,720,428</u>

25. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit, guarantees and forward foreign exchange contracts which are designed to meet the requirements of the Group's customers toward third parties. Commitments represent the Group's commitments towards approved un-drawn credit facilities. The amounts reflected below represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

	2008 AED'000	2007 AED'000
Contingent liabilities:		
Letters of credit	2,490,037	3,134,343
Guarantees	8,305,460	6,509,393
	10,795,497	9,643,736
Credit commitments:		
Undrawn commitments to extend credit	3,839,843	3,073,219
Total contingent liabilities and commitments	<u>14,635,340</u>	<u>12,716,955</u>

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Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

26. DERIVATIVES

The following table shows the fair values of derivative financial instruments at the balance sheet 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, which is generally limited to the positive fair value of the derivatives, nor market risk.

31 December 2008	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to five years	Over five years
	← AED'000 →						
<i>Held for trading:</i>							
Foreign exchange							
Forwards	53,782	11,387	1,957,891	1,063,241	159,550	735,100	-
	53,782	11,387	1,957,891	1,063,241	159,550	735,100	-
<i>Held as cash flow hedges:</i>							
Interest rate swaps	598	6,143	954,980	-	-	954,980	-
	598	6,143	954,980	-	-	954,980	-
Total	54,380	17,530	2,912,871	1,063,241	159,550	1,690,080	-
31 December 2007	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to five years	Over five years
	← AED'000 →						
<i>Held for trading:</i>							
Interest rate swaps	1,719	1,897	36,730	-	-	36,730	-
Foreign exchange							
Forwards	20,540	32,533	2,207,284	1,764,076	388,113	55,095	-
Total	22,259	34,430	2,244,014	1,764,076	388,113	91,825	-

27. CONCENTRATION OF ASSETS, LIABILITIES AND CONTINGENT LIABILITIES

	2008			2007		
	Assets	Liabilities	Contingent liabilities	Assets	Liabilities	Contingent liabilities
	←	AED'000	→	←	AED'000	→
Geographic region						
UAE	34,722,794	28,203,301	9,926,784	28,907,323	22,249,103	9,293,378
GCC	914,863	407,864	35,862	1,004,067	1,025,245	350,358
Other middle east countries	284	107,154	24,309	212,206	340,065	-
Europe and USA	81,338	2,128,858	718,011	210,421	1,849,589	-
Others	38,022	206,941	90,531	102,000	213,117	-
Total	35,757,301	31,054,118	10,795,497	30,436,017	25,677,119	9,643,736
Customer groups						
Commercial and business	19,477,434	12,909,354	8,746,520	14,220,498	11,090,947	7,602,105
Banks and financial institutions	2,435,556	4,503,382	660,843	2,003,021	3,446,358	619,320
Government and public sector entities	3,375,501	2,277,381	35,872	6,669,870	1,344,794	66,565
Individuals	8,504,997	10,760,148	1,350,761	5,499,211	9,067,915	1,352,171
Others	1,963,813	603,853	1,501	2,043,417	727,105	3,575
Total	35,757,301	31,054,118	10,795,497	30,436,017	25,677,119	9,643,736

Domestic represents all balances with United Arab Emirates residents regardless of the currency and international represents balances with overseas residents.

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Notes to the consolidated financial statements (continued) for the year ended 31 December 2008

28. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Business segments pay to and receive interest from the Central Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Business segments

Corporate banking	Includes loans and other credit facilities, current accounts and deposits and trade finance products to large corporate, commercial (mid-sized) clients and small commercial clients (business).
Consumer banking	Includes current accounts, easy access saving accounts, fixed rate deposits accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to high-net worth (al dana), mid-tier clients (personal) and modest income group (direct).
Treasury and investments	Undertakes balance sheet management, deals in derivatives for trading and for risk management purposes and manages the Group's proprietary investment portfolio.

The Group also has a Central Shared Services operation that manages the Group's premises and certain corporate costs. Interest is charged or credited to business segments at pool fund transfer pricing rates which approximate the replacement cost of funds. Other central costs are allocated to business segments on a reasonable basis whereas certain costs remain unallocated.

Geographical

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

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2008

28. SEGMENTAL REPORTING (CONTINUED)

Segmental analysis for the year ended 31 December 2008 was as follows:

	Corporate banking	Consumer banking	Treasury and investments	Other operations	Total
	← AED'000 →				
Assets	26,062,844	2,516,414	5,361,609	1,816,434	35,757,301
Liabilities	19,688,718	6,065,930	3,830,369	1,469,101	31,054,118
Net interest income	813,454	214,441	116,082	-	1,143,977
Other income	285,133	68,139	142,024	38,035	533,331
Total operating income	1,098,587	282,580	258,106	38,035	1,677,308
Allocated cost	268,327	123,689	12,710	-	404,726
Unallocated cost	-	-	-	38,915	38,915
Provisions for impairment losses net of recoveries	12,510	8,845	396,961	-	418,316
Depreciation	5,512	7,459	1,380	29,619	43,970
Total expenses	286,349	139,993	411,051	68,534	905,927
Net profit for the year	812,238	142,587	(152,945)	(30,499)	771,381

Segmental analysis for the year ended 31 December 2007 was as follows:

	Corporate banking	Consumer banking	Treasury and investments	Other operations	Total
	← AED'000 →				
Assets	19,090,498	1,686,596	8,229,838	1,429,085	30,436,017
Liabilities	15,796,081	5,380,856	3,241,929	1,258,253	25,677,119
Net interest income	526,215	158,390	187,131	-	871,736
Other income	240,968	45,367	197,717	28,434	512,486
Total operating income	767,183	203,757	384,848	28,434	1,384,222
Allocated cost	207,382	80,475	7,622	-	295,479
Unallocated cost	-	-	-	75,920	75,920
Provisions for impairment losses net of recoveries	22,819	6,544	11,926	-	41,289
Depreciation	4,212	7,126	960	23,319	35,617
Total expenses	234,413	94,145	20,508	99,239	448,305
Net profit for the year	532,770	109,612	364,340	(70,805)	935,917

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Notes to the consolidated financial statements (continued)

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29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Group, related parties, as defined in the International Accounting Standard No. 24, include major non-Government shareholders of the Group, directors and key management personnel and companies of which they are principal owners who were customers of the Group during the year. The terms of these transactions are approved by the Group's Board:

	Directors and key management personnel	
	2008	2007
	AED'000	AED'000
Loans		
Outstanding at 1 January	306,605	199,982
Loans issued	261,314	121,210
Repayments	(93,729)	(14,587)
Outstanding at 31 December	474,190	306,605
Interest income	21,881	18,292
Deposits		
Deposits at 1 January	132,317	266,169
Received	70,327	71,203
Repaid	(111,888)	(205,055)
Deposits at 31 December	90,756	132,317
Interest expense	1,796	3,316
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.		
No provisions for impairment have been recognized in respect of loans given to related parties (2007: AED NIL)		
The loans issued to directors during the year amounted to AED 261.3 million (2007: AED 121.2 million), are repayable monthly over a maximum period of 5 years (2007: 5 years) and carry interest at rates comparable to third party loans. These loans are unsecured (2007: unsecured).		
Key management compensation	2008	2007
	AED'000	AED'000
Salaries and other short-term benefits	15,320	11,696
Post retirement benefits	858	723

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements.