

Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2009

Commercial Bank of Dubai PSC

Consolidated Financial Statements

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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 CBD Financial Services LLC (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income (comprising a consolidated statement of comprehensive income and a separate consolidated income statement), consolidated statement of changes in equity and consolidated 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.

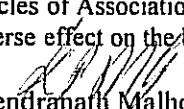
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, 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 Company 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 2009, which may have had a material adverse effect on the business of the Group or its financial position.


Vijendranath Malhotra
Registration No: 48 B

25 JAN 2010

Commercial Bank of Dubai PSC

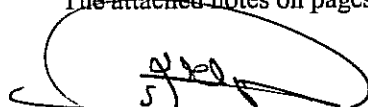
Consolidated statement of financial position

as at 31 December 2009

	Note	2009 AED'000	2008 AED'000
ASSETS			
Cash and balances with Central Bank	8	3,651,928	2,208,583
Due from banks	9	1,159,071	919,719
Loans and advances	10	28,376,823	28,579,258
Investment securities	11	1,896,575	2,233,307
Property and equipment	12	576,883	475,799
Other assets	13	1,121,772	1,340,635
Total assets		36,783,052	35,757,301
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	14	766,568	2,361,169
Customers' deposits	15	27,928,454	25,754,648
Medium term borrowing	16	1,469,200	1,469,200
Other liabilities	17	1,268,870	1,469,101
Total liabilities		31,433,092	31,054,118
EQUITY			
Share capital	18	1,764,806	1,411,845
Legal reserve	18	1,379,683	1,379,679
Capital reserve	18	38,638	38,638
General reserve	18	1,100,000	1,100,000
Cumulative changes in fair values of AFS investments	18	65,511	(19,187)
Cumulative changes in fair values of cash flow hedge instruments	18	(29,034)	(5,545)
Reserve for proposed bonus issue	18	176,481	352,961
Proposed cash dividend	18	264,721	211,777
Proposed directors' remuneration	18	6,000	6,000
Retained earnings		583,154	227,015
Total equity		5,349,960	4,703,183
Total liabilities and equity		36,783,052	35,757,301

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 25th of January 2010.

The attached notes on pages 8 to 66 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 income statement for the year ended 31 December 2009

	Note	2009 AED'000	2008 AED'000
Interest income	19	2,038,366	1,769,482
Interest expense	20	(720,831)	(625,505)
Net interest income		1,317,535	1,143,977
Net fees and commission income	21	348,313	337,800
Net gains from dealing in foreign currencies		86,349	129,564
Net gains / (losses) from investments at fair value through profit or loss – held for trading	22	10,225	(60,789)
Net (losses) / gains from sale of available-for-sale investments		(22,354)	91,885
Dividend income	23	10,621	19,219
Other income		17,233	15,652
		1,767,922	1,677,308
Provisions for impairment losses on loans and advances		(411,108)	(83,454)
Recoveries		25,851	62,099
Impairment losses on available-for-sale investments	11.2	(44,023)	(396,961)
Net interest and other income		1,338,642	1,258,992
General and administrative expenses	24	(484,170)	(443,641)
Depreciation	12	(51,127)	(43,970)
Total expenses		(535,297)	(487,611)
Net profit for the year		803,345	771,381
Basic and diluted earnings per share	25	AED 0.46	AED 0.44

The attached notes on pages 8 to 66 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 comprehensive income for the year ended 31 December 2009

	2009 AED'000	2008 AED'000
Net profit for the year	803,345	771,381
Other comprehensive income:		
Changes in fair value of effective portion of cash flow hedge	(23,489)	(5,545)
Changes in available-for-sale investments:		
Realized losses /(gains) on sale of available-for-sale investments	22,354	(91,885)
Amortization of reclassified investments	32,016	8,539
Revaluation of available-for-sale investments	(13,695)	(790,323)
Impairment losses on available-for-sale investments	44,023	396,961
Net change in available-for-sale investments	84,698	(476,708)
Directors' remuneration	(6,000)	(6,000)
Other comprehensive income / (expense) for the year	55,209	(488,253)
Total comprehensive income for the year	858,554	283,128

The attached notes on pages 8 to 66 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 2009

	Share capital	Legal reserve	Capital reserve	General reserve	Cumulative changes in fair values of AFS investments	Cumulative changes in fair values of hedge instruments	Retained earnings	Proposed distributions	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2008	1,129,476	1,257,375	38,638	1,070,000	457,521	-	178,676	627,212	4,758,898
Transactions with owners, recorded directly in equity:									
Bonus shares (25%)	282,369	-	-	-	-	-	-	(282,369)	-
Cash dividend paid (30%)	-	-	-	-	-	-	-	(338,843)	(338,843)
Proposed bonus issue (25%)	-	-	-	-	-	-	(352,961)	352,961	-
Proposed cash dividend (15%)	-	-	-	-	-	-	(211,777)	211,777	-
Proposed directors' remuneration	-	-	-	-	-	-	(6,000)	6,000	-
Transfer to legal reserve	-	122,304	-	-	-	-	(122,304)	-	-
Transfer to general reserve	-	-	-	30,000	-	-	(30,000)	-	-
Total comprehensive income for the year	-	-	-	-	(476,708)	(5,545)	771,381	(6,000)	283,128
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
Transactions with owners, recorded directly in equity:									
Bonus shares (25%)	352,961	-	-	-	-	-	-	(352,961)	-
Cash dividend paid (15%)	-	-	-	-	-	-	-	(211,777)	(211,777)
Proposed bonus issue (10%)	-	-	-	-	-	-	(176,481)	176,481	-
Proposed cash dividend (15%)	-	-	-	-	-	-	(264,721)	264,721	-
Proposed directors' remuneration	-	-	-	-	-	-	(6,000)	6,000	-
Transfer to legal reserve	-	4	-	-	-	-	(4)	-	-
Total comprehensive income for the year	-	-	-	-	84,698	(23,489)	803,345	(6,000)	858,554
At 31 December 2009	1,764,806	1,379,683	38,638	1,100,000	65,511	(29,034)	583,154	447,202	5,349,960

The attached notes on pages 8 to 66 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 cash flows

for the year ended 31 December 2009

	2009 AED'000	2008 AED'000
OPERATING ACTIVITIES		
Profit for the year	803,345	771,381
Adjustments for:		
Depreciation	51,127	43,970
Assets written off	1,668	-
Impairment loss on available-for-sale investments	44,023	396,961
Gain on disposal of property and equipment	(27)	(13)
Dividend income	(10,621)	(19,219)
Net unrealized (gains) / losses on investments at fair value through profit or loss – held for trading	(11,439)	60,789
Realized losses / (gains) on sale of investments	23,222	(91,885)
Net unrealized losses / (gains) on derivatives	26,889	(54,566)
Amortization of reclassified investments	(2,518)	(1,604)
Directors' remuneration paid	(6,000)	(6,000)
	919,669	1,099,814
Decrease / (increase) in statutory reserve with the Central Bank	176,084	(425,584)
Decrease / (increase) in loans and advances	202,435	(7,802,164)
Decrease in due from banks maturing after three months	-	31,110
Increase in other assets	(12,478)	(33,406)
Increase in customers' deposits	2,173,806	4,577,711
Decrease in other liabilities	(19,268)	(33,917)
Increase / (Decrease) in due to banks maturing after three months	638	(1,102,363)
Net cash flow from / (used in) operating activities	3,440,886	(3,688,799)
INVESTING ACTIVITIES		
Purchase of investments	(265,810)	(1,420,846)
Purchase of property and equipment	(153,914)	(104,208)
Dividend income	10,621	19,219
Proceeds from sale of investments	633,952	636,980
Proceeds from sale of property and equipment	62	94
Net cash flow from / (used in) investing activities	224,911	(868,761)
FINANCING ACTIVITIES		
Medium term borrowing	-	1,469,200
Dividend paid	(211,777)	(338,843)
Net cash flow (used in) / from financing activities	(211,777)	1,130,357
Net increase / (decrease) in cash and cash equivalents	3,454,020	(3,427,203)
Cash and cash equivalents at 1 January	(706,775)	2,720,428
Cash and cash equivalents at 31 December	note 26 2,747,245	(706,775)

The attached notes on pages 8 to 66 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 2009

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 2009 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. DISCLOSURE POLICY

The Group has laid down the disclosure policy to ensure compliance with all applicable laws concerning disclosure of material non public information, including International Financial Reporting Standards, the Central Bank of UAE (lead regulator), BASEL II Pillar 3 guidelines laid down by CBUAE, Emirates Securities and Commodities Authority (ESCA) and Dubai Financial Market (DFM).

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

a) Materiality thresholds

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement, and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down a materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

b) Internal controls

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of accounting and financial disclosures. In addition, the financial statements are subject to a quarterly review and year end audit procedures by the Group’s external auditors.

c) Frequency and medium of disclosure

Interim financial results are disclosed on a quarterly basis while complete financial statements complying with the requirements of IFRS, Basel II Pillar 3 and other guidelines from Central Bank is made on an annual basis. Disclosures of material non public financial information are made by the Financial Control Department of the Group in coordination with Marketing Department through the following mediums:

- Sending reviewed quarterly and annual audited financial statements along with Directors’ report to DFM and ESCA;
- Hosting quarterly and annual financial statements on the Group’s website;
- Publication of annual audited financial statements in both Arabic and English newspapers after the approval of the Central Bank of UAE and the Shareholders at the Annual General Meeting (AGM);
- Management Discussion and Analysis in Arabic and English newspapers in a manner that ensures wide dissemination; and

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

2. DISCLOSURE POLICY (CONTINUED)

c) Frequency and medium of disclosure (continued)

- Publication of financials in the annual report.

3. 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), interpretation issued by international financial reporting interpretations committee (IFRIC) and applicable requirements of laws of the U.A.E.

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

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 profit or loss 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.

4. 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 the Group entities. In addition, the Group has adopted the following changes/new IFRSs/IASs for the first time in preparation of these consolidated financial statements. These new and revised IFRSs/IASs, which became applicable for annual periods beginning on or after 1 January 2009, affect the presentation and disclosure of these consolidated financial statements and do not affect the Group's reported profit or loss, earnings per share or equity.

IAS 1 – Presentation of financial statements (Revised 2007)

The revised IAS 1 introduces the term 'other comprehensive income' which represents changes in equity during a period other than those resulting from transactions with owners in their capacity as owners. As a result all owner changes in equity are presented in statement of changes in equity whereas all non-owner changes in equity are presented in statement of other comprehensive income. The Group has applied the revised IAS 1 retrospectively and has adopted a two statement approach to present comprehensive income i.e. income statement and a separate statement of comprehensive income. Further the revised IAS 1 has also changed the title of 'balance sheet' to 'statement of financial position'.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 8 – Operating segments

The IFRS requires the segment information to be prepared in accordance with the “management approach”, which requires presentation of the segments on the basis of the internal reports about components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Group primarily manages its operation through business and geographical segments, for which the information is disclosed in note 29.

Amendments to IFRS 7

In March 2009, the IASB issued “Improving Disclosures about Financial Instruments – Amendments to IFRS 7 Financial Instruments: Disclosures”. The amendments require disclosures of financial instruments measured at fair value to be based on a three-level fair value hierarchy that reflects the significance of the inputs in such fair value measurements. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes into valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Pursuant to these amendments, the Group has disclosed the respective information under note 7.2.

Basel II pillar 3

Along with these consolidated financial statements, the Group has presented BASEL II Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank of UAE (“the Central Bank”). The adoption of BASEL II Pillar 3 guidelines impacted the type and amount of disclosures made in these consolidated financial statements, but had no impact on the reported profits or loss, earning per share or equity. In accordance with the requirements of Basel II, the Group has provided full comparative information.

The standards and interpretations that are issued but not yet effective for accounting periods beginning on 1 January 2009 are as follows:

- IFRS - 1 (Revised) - First-time Adoption of International Financial Reporting Standards: Effective 1 July 2009;
- IFRS - 3 (Revised) - Business Combinations: Effective 1 July 2009;
- IFRS - 5 (Amended) - Non-current Assets Held for Sale and Discontinued Operations: Effective 1 July 2009;
- IFRS - 9 Financial Instruments: Effective 1 January 2013;
- IAS - 24 (Revised) - Related Party Disclosures: Effective 1 January 2011;
- IAS - 27 (Amended) - Consolidated and Separate Financial Statements
- IAS - 32 (Amended) - Financial Instruments Presentation and Disclosure: Effective 1 February 2010;
- IAS - 39 (Amended) - Financial Instruments: Effective 1 January 2010;
- IFRIC - 9 (Amended) - Reassessment of Embedded Derivatives;
- IFRIC - 14 (Amended) - Prepayment of minimum funding requirement: Effective 1 January 2011;
- IFRIC - 17 Distribution of Non-cash Assets to Owners: Effective 1 July 2009; and
- IFRIC - 19 Extinguishing Financial Liabilities with Equity Instruments: Effective 1 July 2010.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) 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.

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.

b) 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 profit or loss: This category has two sub-categories: financial assets held for trading and those designated to be fair valued through profit or loss 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) financial assets at fair value through profit or loss, (b) loans and advances or (c) held-to-maturity investments.

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 profit or loss.

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 its contractual obligation is discharged, cancelled or expired.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Subsequent measurement

Financial assets available-for-sale and investments at fair value through profit and loss are subsequently carried at fair value.

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

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss 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 other comprehensive income, 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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instrument that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. 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.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Fair value measurement principles (continued)

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

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- Level 2: Valuation techniques based on observable input, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Identification and measurement of impairment (continued)

Individually assessed loans

At each balance sheet date, the Group assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. This procedure is applied to all accounts that are considered individually significant. In determining impairment losses on these loans, the following factors are considered:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realizable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding; and
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not local currency.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Collectively assessed loans

Impairment is determined on a collective basis in two different scenarios:

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified; and
- for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been identified (performing loans) are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This arises from individual loan impairment at the balance sheet date which will only be specifically identified in the future.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Identification and measurement of impairment (continued)

Collectively assessed loans (continued)

Incurred but not yet identified impairment (continued)

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate specific allowance against the individual loan; and
- management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by the management for each portfolio grouping.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment on investments classified as available-for-sale

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. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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 other comprehensive income.

c) 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Derivative financial instruments (continued)

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.

d) 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 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Hedging instruments (continued)

Hedge accounting (continued)

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 other comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the income statement.

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

Hedges that do not qualify for hedge accounting

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

e) Due from banks

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

f) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss.

g) 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.

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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Property and equipment (continued)

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

Property and equipment are impaired if the carrying amount of the asset or its cash generating unit exceed its recoverable amount. The impairment loss is recognized in the income statement.

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

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

h) 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.

i) 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.

j) 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.

k) 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.

l) Share capital

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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Dividend on ordinary shares

Dividends payable on ordinary shares are recognized as a liability in the period in which they are approved by the Bank's shareholders.

n) Offsetting

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

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

o) 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.

p) 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.

q) 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 or time proportion basis as applicable.

r) Income from investments

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

s) Dividend income

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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date, 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 reporting date. Foreign exchange differences arising on translation are recognized in the income statement.

u) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

v) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

w) Segment reporting

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

x) 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Use of estimates and judgments (continued)

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 and 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

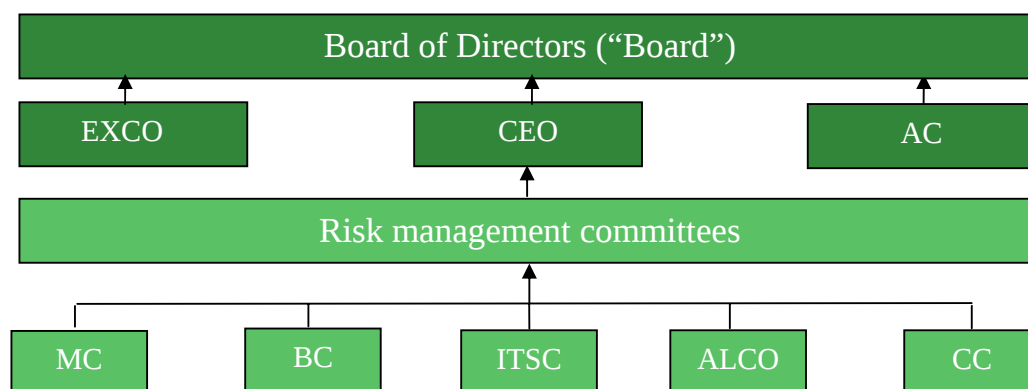
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1 Risk Governance

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, controlled effectively and kept within set limits. It 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.

In order to effectively discharge this responsibility the Board is assisted by two Board Committees and five Management Committees. An illustration of how these committees report to the Group Board is shown below:



(a) Executive Committee (EXCO)

EXCO acts as the Group’s senior executive management assuring that the Group meets its strategic and operational objectives. EXCO consists of four Directors, Chief Executive Officer (CEO) and Deputy Chief Executive Officer (DCEO).

(b) Audit Committee (AC)

The AC consists of five Board members and an independent Director and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group’s financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group’s external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

(c) Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing, administrative and processes. In addition, the MC is also responsible for management of Operational Risk with the support of the Risk Management Department who are responsible to liaise with all other units/divisions across the Group.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.1 Risk Governance (continued)

(d) *Business Committee (BC)*

The purpose of BC is to support decisions on issues related to corporate and consumer banking, treasury and investments.

(e) *IT Steering Committee (ITSC)*

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with :

- Reviewing the Group's IT development, strategic opportunities and plans;
- Providing guidance in the prioritization and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks; and
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks.

(f) *Asset and Liability Committee (ALCO)*

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors. The roles of ALCO include the following:

- Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:
 - Liquidity risk – being the risk of the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
 - Market risk – being the following risks:
 - The risk to earnings from adverse movements in interest rates, exchange rates and market volatility; and
 - The risk from changes in the value of portfolio of financial instruments.
 - Statement of financial position risk - being the following risks:
 - The risk to earnings from changes in interest rates and market volatility in retail and wholesale rates;
 - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in interest rates and market volatility;
 - The risk from material changes in global and domestic economic conditions generally; and
 - Consider deposit and loan products and their impact on the statement of financial position. In particular, consider the pricing and maturity distributions of deposits, loans and investments.
- Oversee the installation and maintenance of an information system that supplies, on a timely basis, the information and data necessary for the ALCO to fulfill its roles and responsibilities.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.1 Risk Governance (continued)

(g) Credit Committee (CC)

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

5.2 Group Risk Department

Group Risk Department comprises credit, market, operational and IT risks. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

5.3 Internal audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the Audit Committee or Senior Management.

It is led by the Head of Internal Audit who reports to the Audit Committee of the Board of Directors, with administrative reporting to the Chief Executive Officer.

To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

5.4 Internal control

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's Management and External Regulatory Bodies. The Internal Control Department reports to the General Manager of Administration and Finance. The functions and responsibilities of the Internal Control Department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.4 Internal control (continued)

- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

5.5 Compliance

The overall mission and role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues and plans for resolution;
- contribute to a “no surprise” compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. 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

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

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 to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in these functions by Internal Audit, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Group's loans and advances, amounts due from banks and investment in debt securities. 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 Committee (CC), 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 Committee (CC) and / or the Board of Directors, as appropriate;
- Establishing limits - actual levels of exposure are regularly reviewed at Group Credit Committee (CC) or Board level, as appropriate;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties;
- 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 (EXCO) 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Exposure to credit risk

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

	Loans and advances		Due from banks		Debt securities	
	2009 AED'000	2008 AED'000	2009 AED'000	2008 AED'000	2009 AED'000	2008 AED'000
Carrying amount	28,376,823	28,579,258	1,159,071	919,719	1,464,799	1,395,016
Neither past due nor impaired						
Grades 1,2 & 3: lowest, minimal & moderate risk	27,084,403	27,480,119	1,159,071	919,719	1,464,799	1,395,016
Grade 4: showing signs of weakness	754,791	381,558	-	-	-	-
Carrying amount	27,839,194	27,861,677	1,159,071	919,719	1,464,799	1,395,016
Past due but not impaired						
In Grade 1 to 4						
Less than 30 days	59,103	466,101	-	-	-	-
30 – 60 days	44,838	68,922	-	-	-	-
60 – 90 days	65,250	40,378	-	-	-	-
Over 90 days	338,984	132,565	-	-	-	-
Carrying amount	508,175	707,966	-	-	-	-
Collective provision for impairment	(329,024)	(65,250)	-	-	-	-
Carrying amount net of collective impairment	28,018,345	28,504,393	1,159,071	919,719	1,464,799	1,395,016
Individually impaired						
Grade 5: Substandard (a)	8,531	5,005	-	-	-	-
Grade 6: Substandard (b)	537,754	189,159	-	-	-	-
Grade 7: Doubtful	33,401	24,200	-	-	-	-
Grade 8: Loss	33,654	47,148	-	-	-	-
Gross amount	613,340	265,512	-	-	-	-
Interest suspended	(85,095)	(72,082)	-	-	-	-
Specific provision for impairment	(235,695)	(126,601)	-	-	-	-
Carrying amount	292,550	66,829	-	-	-	-
Collectively impaired						
Grade 5: Substandard (a)	248	382	-	-	-	-
Grades 6: Substandard (b)	121,158	45,124	-	-	-	-
Grade 7: Doubtful	22,630	18,399	-	-	-	-
Grade 8: Loss	9,588	7,114	-	-	-	-
Gross amount	153,624	71,019	-	-	-	-
Interest suspended	(31,583)	(23,432)	-	-	-	-
Collective provision for impairment	(56,113)	(39,551)	-	-	-	-
Carrying amount	65,928	8,036	-	-	-	-
Total carrying amount	28,376,823	28,579,258	1,159,071	919,719	1,464,799	1,395,016

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Impaired loans and advances and investment in debt securities

Individually impaired loans and advances and investment debt securities are financial assets for which the Group determines that there is objective evidence of impairment and 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. 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 in 2008 and is running on a parallel basis.

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.

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 pricing, approval, and credit monitoring. In order to achieve this, the Group has started pricing facilities using Risk Adjusted Return on Capital (RAROC), which leads to the Basel II compliance.

Past due but not impaired loans

These are the loans where contractual interest or principal payments are past due, 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Loans with renegotiated terms

Restructuring activity is designed to manage customer relationships, maximize collection opportunities and avoid foreclosure or repossession, if possible. Following restructuring, an overdue account will normally be reset from delinquent to current status. Restructuring is done based on indications or criteria which, in the opinion of management, evidence the probability that payment will continue. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times. Such loans are subject to individual or collective impairment assessment on regular basis. At 31 December 2009 renegotiated loans amount to AED 691 million (2008: AED 305 million).

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

The Group monitors concentrations of its impaired loans by sector and by geographic location. An analysis of concentrations of impaired loans by sector is shown below:

OVERDUE					
2009	Less than 90 Days AED'000	90 Days & above AED'000	Total AED'000	Specific provision and interest in suspense AED'000	Collaterals AED'000
Commercial and Business:-					
Agriculture & allied activities	-	-	-	-	-
Mining & quarrying	-	1,057	1,057	526	424
Manufacturing	2,866	17,023	19,889	19,889	-
Construction	100,512	132,186	232,698	55,138	141,656
Trade	60,429	122,117	182,546	130,058	41,874
Transport & communication	2,247	6,394	8,641	7,150	1,190
Services	54,874	25,002	79,876	32,219	38,020
Total commercial and Business	220,928	303,779	524,707	244,980	223,164
Banks and financial institutions	-	-	-	-	-
Government and public sector entities	-	-	-	-	-
Personal-schematic	93,614	60,010	153,624	87,696	51,278
Personal-business	24,355	61,251	85,606	73,053	11,333
Others	2,339	688	3,027	2,757	215
Total carrying amount	341,236	425,728	766,964	408,486	285,990

In addition to the specific provision, the Group holds AED 329 million as collective provisions. All impaired loans are located in one geographic area, the United Arab Emirates.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

2008	OVERDUE		Total AED'000	Specific provision and interest in suspense AED'000	Collaterals AED'000
	Less than 90 Days AED'000	90 Days & above AED'000			
Commercial and Business:-					
Agriculture & allied activities	-	-	-	-	-
Mining & quarrying	1,717	38	1,755	526	577
Manufacturing	-	13,905	13,905	13,151	357
Construction	10,010	28,346	38,356	21,211	8,109
Trade	59,843	53,247	113,090	102,863	4,837
Transport & communication Services	4,641	483	5,124	1,719	1,610
	<u>44,116</u>	<u>4,814</u>	<u>48,930</u>	<u>20,298</u>	<u>13,542</u>
Total commercial and business	120,327	100,833	221,160	159,768	29,032
Banks and financial institutions	-	-	-	-	-
Government and public sector entities	-	-	-	-	-
Personal-schematic	43,703	27,316	71,019	62,983	2,900
Personal-business	13,637	29,361	42,998	37,579	3,476
Others	666	688	1,354	1,336	-
Total carrying amount	<u>178,333</u>	<u>158,198</u>	<u>336,531</u>	<u>261,666</u>	<u>35,408</u>

In addition to the specific provision, the Group holds AED 65 million as collective provisions.
All impaired loans are located in one geographic area, the United Arab Emirates.

Write - off policy

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

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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Write - off policy (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		Debt securities	
	AED'000					
	Gross	Net	Gross	Net	Gross	Net
31 December 2009						
5&6: Substandard (a & b)	546,285	292,550	-	-	-	-
Grade 7: Doubtful	33,401	-	-	-	-	-
Grade 8: Loss	33,654	-	-	-	-	-
Total	613,340	292,550	-	-	-	-
31 December 2008						
5&6: Substandard (a & b)	194,164	66,829	-	-	-	-
Grade 7:Doubtful	24,200	-	-	-	-	-
Grade 8: Loss	47,148	-	-	-	-	-
Total	265,512	66,829	-	-	-	-

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 investment securities and amounts due from banks, and no such collateral was held at 31 December 2009 or 2008.

Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The tables below set out the concentration of credit risk by sector, geography and currency.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Concentration of credit risk by sector for 2009

	Loans and advances	Due from banks	Debt securities	Equity Securities	Cash, balances with Central bank and other assets	Total on balance sheet	Undrawn commitments	Contingent liabilities and acceptances
	AED'000	AED'000	AED'000	AED'000	AED,000	AED'000	AED'000	AED'000
<i>Concentration by sector</i>								
Commercial and Business:-								
Agriculture & allied activities	25,534	-	-	-	-	25,534	7,305	56,973
Mining & quarrying	335,519	-	-	-	-	335,519	153,362	118,878
Manufacturing	1,631,551	-	-	-	-	1,631,551	456,177	510,540
Construction	3,842,416	-	57,161	1,904	-	3,901,481	916,683	-
Trade	8,177,457	-	-	-	-	8,177,457	2,841,153	2,949,692
Transport & communication	493,674	-	-	15,720	-	509,394	144,237	915,519
Services	2,956,473	-	-	113	-	2,956,586	1,866,239	3,535,901
Total commercial and Business	17,462,624	-	57,161	17,737	-	17,537,522	6,385,156	8,087,503
Banks and financial institutions	688,502	1,159,071	314,407	414,039	1,404,674	3,980,693	140,460	1,024,937
Government and public sector entities	1,782,814	-	1,093,231	-	3,165,190	6,041,235	119,866	917,869
Personal-schematic	2,422,263	-	-	-	-	2,422,263	683,182	15,772
Personal-business	6,231,736	-	-	-	-	6,231,736	1,637,583	700,999
Others	526,394	-	-	-	-	526,394	7,446	15,832
Total carrying amount	29,114,333	1,159,071	1,464,799	431,776	4,569,864	36,739,843	8,973,693	10,762,912

Total securities held against loans and advances are AED 16,305 million, of which AED 10,527 million are legal mortgages.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Concentration of credit risk by sector for 2008

	Loans and advances	Due from banks	Debt securities	Equity Securities	Cash, balances with Central bank and other assets	Total on balance sheet	Undrawn commitments	Contingent liabilities and acceptances
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Concentration by sector</i>								
Commercial and Business:-								
Agriculture & allied activities	26,174	-	-	-	-	26,174	6,787	11,741
Mining & quarrying	204,312	-	-	-	-	204,312	222,540	110,757
Manufacturing	1,685,909	-	-	-	-	1,685,909	507,206	528,013
Construction	3,122,660	-	-	4,000	-	3,126,660	2,472,418	-
Trade	9,081,784	-	-	54,356	-	9,136,140	2,784,258	3,240,809
Transport & communication	600,995	-	-	56,945	-	657,940	96,479	231,583
Services	2,634,890	-	-	9,238	-	2,644,128	1,997,467	3,977,581
Total commercial and business	17,356,724	-	-	124,539	-	17,481,263	8,087,155	8,100,484
Banks and financial institutions	514,719	919,719	286,858	713,752	1,418,025	3,853,073	198,277	699,445
Government and public sector entities	1,649,030	-	1,108,158	-	1,631,013	4,388,201	108,717	1,331,156
Personal-schematic	2,683,886	-	-	-	-	2,683,886	961,900	14,269
Personal-business	5,821,111	-	-	-	-	5,821,111	967,473	1,603,378
Others	880,704	-	-	-	-	880,704	9,385	22,744
Total carrying amount	28,906,174	919,719	1,395,016	838,291	3,049,038	35,108,238	10,332,907	11,771,476

Total securities held against loans and advances are AED 14,247 million, of which AED 8,698 million is legal mortgages.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Concentration of credit risk by geographic location:

2009	Loans and advances	Due from banks	Debt securities	Equity Securities	Cash, balances with Central bank and other assets	Total on balance sheet	Undrawn commitments	Contingent liabilities and acceptances
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Concentration by location								
UAE	28,581,678	1,062,349	1,344,319	344,139	4,569,864	35,902,349	8,932,066	10,035,622
GCC	503,881	9,719	57,299	87,637	-	658,536	41,627	21,799
Other Arab Countries	-	1,046	-	-	-	1,046	-	14,708
Europe	-	26,786	43,249	-	-	70,035	-	486,479
USA	-	53,266	-	-	-	53,266	-	8,181
Asia	28,774	4,419	19,932	-	-	53,125	-	185,592
Others	-	1,486	-	-	-	1,486	-	10,531
Total carrying amount	29,114,333	1,159,071	1,464,799	431,776	4,569,864	36,739,843	8,973,693	10,762,912
2008	Loans and advances	Due from banks	Debt securities	Equity Securities	Cash, balances with Central bank and other assets	Total on balance sheet	Undrawn commitments	Contingent liabilities and acceptances
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Concentration by location								
UAE	28,338,159	895,101	1,286,748	511,303	3,049,038	34,080,349	10,284,237	10,902,763
GCC	531,285	2,609	48,300	326,051	-	908,245	48,670	35,862
Other Arab Countries	-	284	-	-	-	284	-	24,309
Europe	-	19,105	41,872	-	-	60,977	-	671,632
USA	-	2,265	-	-	-	2,265	-	46,379
Asia	36,730	221	18,096	390	-	55,437	-	88,170
Others	-	134	-	547	-	681	-	2,361
Total carrying amount	28,906,174	919,719	1,395,016	838,291	3,049,038	35,108,238	10,332,907	11,771,476

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Concentration of credit risk by currency:

2009	Loans and advances	Due from banks	Debt securities	Equity securities	Cash, balances with Central bank and other assets	Total on balance sheet	Undrawn commitments	Contingent liabilities and acceptances
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Concentration by currency</i>								
AED	26,540,381	251,263	1,078,774	119,303	4,563,480	32,553,201	8,932,066	7,824,091
Other currencies	2,573,952	907,808	386,025	312,473	6,384	4,186,642	41,627	2,938,821
Total carrying amount	29,114,333	1,159,071	1,464,799	431,776	4,569,864	36,739,843	8,973,693	10,762,912
2008	Loans and advances	Due from banks	Debt securities	Equity securities	Other assets	Total on balance sheet	Undrawn commitments	Contingent liabilities and acceptances
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Concentration by currency</i>								
AED	25,831,041	756,252	1,045,986	108,889	3,042,420	30,784,588	10,284,237	9,024,856
Other currencies	3,075,133	163,467	349,030	729,402	6,618	4,323,650	48,670	2,746,620
Total carrying amount	28,906,174	919,719	1,395,016	838,291	3,049,038	35,108,238	10,332,907	11,771,476

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. 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 that are settled by delivering cash or other financial assets. 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 to meet its liabilities when due, under both normal and stressed conditions, without incurring un acceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, money market instruments, subordinated debts and capital. The treasury and ALM department 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.

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

- Day to day funding managed by monitoring future cash flows to ensure that requirements can be met - these include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money market to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which stands at 92% (2008: 100%). In addition, the Group also uses the following ratios/information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Third party liabilities maturing within one month to third party liabilities;
- Customers' deposits maturing within one month to customers' deposits; and
- Deposits' concentration

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

The maturity profile of the assets and liabilities at 31 December 2009 was as follows:

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with Central Bank	3,651,928	3,651,928	-	-	-	-
Due from banks	1,159,071	1,159,071	-	-	-	-
Loans and advances	28,376,823	7,808,724	1,661,001	2,438,376	10,044,706	6,424,016
Investment securities	1,896,575	431,775	-	148,994	1,150,672	165,134
Property and equipment	576,883	881	310	5,999	97,404	472,289
Other assets	1,121,772	605,014	273,344	243,414	-	-
Total assets	36,783,052	13,657,393	1,934,655	2,836,783	11,292,782	7,061,439
Liabilities and equity						
Due to banks	766,568	561,920	57,648	147,000	-	-
Customers' deposits	27,928,454	16,889,770	4,457,059	4,675,326	49,261	1,857,038
Medium term borrowing	1,469,200	-	-	-	1,469,200	-
Other liabilities	1,268,870	752,112	273,344	243,414	-	-
Equity	5,349,960	-	264,721	-	-	5,085,239
Total liabilities and equity	36,783,052	18,203,802	5,052,772	5,065,740	1,518,461	6,942,277

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. 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 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
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	9,610,286	1,648,552	1,824,814	9,356,063	6,139,543
Investment securities	2,233,307	835,878	-	90,362	1,139,644	167,423
Property and equipment	475,799	2,389	-	1,278	91,964	380,168
Other assets	1,340,635	707,596	316,993	230,582	85,464	-
Total assets	<u>35,757,301</u>	<u>14,284,451</u>	<u>1,965,545</u>	<u>2,147,036</u>	<u>10,673,135</u>	<u>6,687,134</u>
Liabilities and equity						
Due to banks	2,361,169	1,872,613	342,194	146,362	-	-
Customers' deposits	25,754,648	16,977,355	3,208,091	3,558,017	2,010,368	817
Medium term borrowing	1,469,200	-	-	-	1,469,200	-
Other liabilities	1,469,101	836,062	316,993	230,582	85,464	-
Equity	4,703,183	-	217,777	-	-	4,485,406
Total liabilities and equity	<u>35,757,301</u>	<u>19,686,030</u>	<u>4,085,055</u>	<u>3,934,961</u>	<u>3,565,032</u>	<u>4,486,223</u>

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 significantly from this analysis.

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

	Total	Less than 1 month	from 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
2009						
Contingent liabilities	9,982,193	1,657,289	1,444,612	3,034,677	2,747,311	1,098,304
Credit commitments	8,973,693	1,572,886	3,145,771	1,623,370	1,623,370	1,008,296
Total	<u>18,955,886</u>	<u>3,230,175</u>	<u>4,590,383</u>	<u>4,658,047</u>	<u>4,370,681</u>	<u>2,106,600</u>
2008						
Contingent liabilities	10,795,497	1,342,592	1,280,488	2,203,250	5,019,553	949,614
Credit commitments	10,332,907	1,811,125	3,622,250	1,869,256	1,869,256	1,161,020
Total	<u>21,128,404</u>	<u>3,153,717</u>	<u>4,902,738</u>	<u>4,072,506</u>	<u>6,888,809</u>	<u>2,110,634</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 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 250 business days.

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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risks (continued)

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.

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

	2009		2008	
	Net interest income		Net interest income	
	50 b.p.	100 b.p.	50 b.p.	100 b.p.
	AED'000	AED'000	AED'000	AED'000
Upward Shift	15,247	30,495	14,241	28,483
Downward Shift.	15,805	31,610	15,015	30,030

	2009		2008	
	Regulatory capital		Regulatory capital	
	50 b.p.	100 b.p.	50 b.p.	100 b.p.
	AED'000	AED'000	AED'000	AED'000
Upward Shift	8,464	16,928	9,501	19,003
Downward Shift.	(8,464)	(16,928)	(9,501)	(19,003)

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risks (continued)

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

31 December 2009	Non interest bearing	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 Year	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with Central Bank	3,651,928	-	-	-	-	3,651,928
Due from banks	-	1,159,071	-	-	-	1,159,071
Loans and advances	-	24,209,935	2,175,113	653,765	2,075,520	29,114,333
Provisions	(737,510)	-	-	-	-	(737,510)
Investment securities	431,776	559,204	556,967	-	348,628	1,896,575
Property and equipment	576,883	-	-	-	-	576,883
Other assets	1,121,772	-	-	-	-	1,121,772
Total assets	5,044,849	25,928,210	2,732,080	653,765	2,424,148	36,783,052
Liabilities and equity						
Due to banks	-	619,568	-	147,000	-	766,568
Customers' deposits	7,524,747	15,555,630	2,120,752	2,669,409	57,916	27,928,454
Medium term borrowing	-	1,469,200	-	-	-	1,469,200
Other liabilities	1,268,870	-	-	-	-	1,268,870
Equity	5,349,960	-	-	-	-	5,349,960
Total liabilities and equity	14,143,577	17,644,398	2,120,752	2,816,409	57,916	36,783,052
Interest rate sensitivity gap	(9,098,728)	8,283,812	611,328	(2,162,644)	2,366,232	-
Cumulative interest rate sensitivity gap	(9,098,728)	(814,916)	(203,588)	(2,366,232)	-	-
31 December 2008	Non interest bearing	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 Year	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	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	-	23,665,829	2,284,254	717,963	2,238,128	28,906,174
Provisions	(326,916)	-	-	-	-	(326,916)
Investment securities	838,291	545,393	535,457	90,362	223,804	2,233,307
Property and equipment	475,799	-	-	-	-	475,799
Other assets	1,340,635	-	-	-	-	1,340,635
Total assets	4,536,392	25,130,941	2,819,711	808,325	2,461,932	35,757,301
Liabilities and equity						
Due to banks	1,273,323	941,484	102,286	44,076	-	2,361,169
Customers' deposits	7,304,743	13,980,703	2,051,370	2,346,647	71,185	25,754,648
Medium term borrowing	-	1,469,200	-	-	-	1,469,200
Other liabilities	1,469,101	-	-	-	-	1,469,101
Equity	4,703,183	-	-	-	-	4,703,183
Total liabilities and equity	14,750,350	16,391,387	2,153,656	2,390,723	71,185	35,757,301
Interest rate sensitivity gap	(10,213,958)	8,739,554	666,055	(1,582,398)	2,390,747	-
Cumulative interest rate sensitivity gap	(10,213,958)	(1,474,404)	(808,349)	(2,390,747)	-	-

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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) 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		2009	2008
US Dollar	(224,172)	205,736	(18,436)	(297,268)
Great Britain Pound	(1,574)	1,192	(382)	341
Japanese Yen	8,326	(8,304)	22	318
Euro	(1,784)	2,790	1,006	1,673
Others	5,485	3,336	8,821	1,547

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

	2009 AED'000	2008 AED'000
Interest rate trading risk	-	-
Equity position risk	2,605	8,882
Foreign currency risk	583	261
	<u>3,188</u>	<u>9,143</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Equity risk

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

Analysis of equity portfolio:

	2009 AED'000	2008 AED'000
Publicly traded (quoted):		
Equity	309,173	497,795
Privately held (unquoted):		
Funds of funds investments	122,603	340,496
Total	431,776	838,291

Analysis of gains/(losses) on equity investments:

	2009 AED'000	2008 AED'000
Realized (loss) / gains on sale	(21,905)	72,046
Unrealized gain/(loss) in P/L	9,776	(41,189)
Impairment losses	(34,842)	(396,961)
Unrealized gain /(loss) in OCI	51,090	(243,569)

The revaluation reserve on equity portfolio as at 31 December 2009 amounting to AED 190.487 million (2008: AED 174.239 million) was considered as Tier II capital.

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

	2009				2008			
	Strategic investment AED'000	AFS AED'000	Held for trading AED'000	Total AED'000	Strategic investment AED'000	AFS AED'000	Held for trading AED'000	Total AED'000
Equity	27,801	8,468	2,308	38,577	33,826	19,987	1,767	55,580
Funds of Funds investment	-	9,435	297	9,732	-	32,292	2,674	34,966
Total	27,801	17,903	2,605	48,309	33,826	52,279	4,441	90,546

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

h) Operational risks

Operational risk is the risk of loss 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 behavior. Potential loss may be in the form of financial loss or other damages, for example loss of reputation and public confidence that will impact the Group's credibility and ability to do business.

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 overseeing the establishment a sound operational risk management framework and monitoring the operational risk profile of the Group 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;
- 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 were initiated mid-year.

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 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) 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.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

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

The Group's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Group 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, except that during the year, the Central Bank has advised that the capital adequacy ratio should be increased to 11% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 7% by 30 September 2009 and 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% by 30 June 2010.

The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges, collective provision and subordinated term loans. The following limits have been applied for Tier 2 capital:
 - Total tier 2 capital shall not exceed 67% of tier 1 capital;
 - Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
 - Collective provision shall not exceed 1.25% of total risk weighted assets.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Capital Management (continued)

Capital resources and adequacy

The table below summarizes the composition of regulatory capital of the Group:

	Basel II		Basel I	
	31 December 2009 AED'000	31 December 2008 AED'000	31 December 2009 AED'000	31 December 2008 AED'000
Core tier 1 capital				
Share capital	1,941,287	1,764,806	1,941,287	1,764,806
Legal reserve	1,379,683	1,379,679	1,379,683	1,379,679
General reserve	1,100,000	1,100,000	1,100,000	1,100,000
Retained earnings	583,154	227,015	583,154	227,015
Tier 1 Capital	5,004,124	4,471,500	5,004,124	4,471,500
Upper tier 2 capital				
Fair value reserve	16,415	(24,732)	16,415	(24,732)
Collective provisions	329,024	65,250	-	-
	345,439	40,518	16,415	(24,732)
Lower tier 2 capital				
Subordinated term loans	1,841,526	-	1,841,526	-
Tier 2 capital	2,186,965	40,518	1,857,941	(24,732)
Deductions from Tier 1 & Tier 2				
Investments in un consolidated subsidiaries	(10,000)	(10,000)	(10,000)	(10,000)
Total capital base (a)	7,181,089	4,502,018	6,852,065	4,436,768
Risk weighted assets (RWA) Pillar 1				
On-balance sheet	-	-	27,027,656	28,362,258
Off-balance sheet	-	-	5,796,691	5,716,950
Credit risk	32,461,191	33,388,558	-	-
Market risk	39,848	114,282	-	-
Operation risk	3,070,372	2,447,034	-	-
Risk weighted assets (b)	35,571,411	35,949,874	32,824,347	34,079,208
Tier 1 ratio	14.06%	12.44%	15.25%	13.12%
Capital adequacy ratio (Pillar) 1 (c)	20.19%	12.53%	20.86%	13.02%
Pillar 2 capital charge (d)	1.18%	1.04%	-	-
Capital adequacy ratio (c – d)	19.01%	11.49%	20.86%	13.02%

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Capital management (continued)

Capital resources and adequacy (continued)

Risk weighted capital requirement

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

Risk weights for credit risk

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

Funded exposure

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable ECAs, except that, for all GCC sovereigns a 0% weight has been applied.

Claims on public sector entities (PSEs)

Domestic currency claims on GCC non commercial PSE were treated as claims on GCC sovereign if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favourable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non commercial PSE were treated one grade less favorable than its sovereign. Claims on commercial PSE were treated as claims on corporate.

Claims on multilateral development banks (MDBs)

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

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting. Claims on local banks were treated as claims on government as these claims are guaranteed by the UAE Federal Government.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate portfolio

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAs. Risk weightings for unrated corporate claims are assigned at 100%.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if they meet the criteria mentioned in the Central Bank of UAE BASEL-II guidelines.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Capital management (continued)

Capital resources and adequacy (continued)

Risk weights for credit risk (continued)

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property

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

Past due exposures

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

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

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%. The aggregate investments in insurance companies amounting to AED 236,796 thousand (2008: AED 262,945 thousand) have been risk weighted in accordance with Basel II.

Other exposures

These are risk weighted at 100%.

Unfunded exposure

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

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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Capital management (continued)

Capital resources and adequacy (continued)

Risk weights for credit risk (continued)

Asset Classes	On balance	Off balance	Credit risk mitigation (CRM)			Risk
	Sheet	sheet				weighted
	Gross	Net Exposure	Exposure		After	assets
	Outstanding	After Credit	Before		CRM	
	g	Conversion	CRM	CRM		
2009	AED'000	Factors (CCF)	AED'000	AED'000	AED'000	AED'000
Claims on Sovereigns	5,719,163	352,610	6,071,773	-	6,071,773	43,250
Claims on Non-Central Government						
Public Sector Entities (PSES)	1,383,137	560,653	1,943,790	-	1,943,790	1,059,523
Claims on banks	349,239	413,416	762,655	-	762,655	376,380
Claims on corporate	14,861,651	5,036,494	19,898,145	1,930,356	17,967,789	17,987,001
Claims included in the regulatory						
retail portfolio	956,554	83,605	1,040,159	32,076	1,008,083	799,930
Claims secured by residential property	1,598,580	-	1,598,580	-	1,598,580	996,726
Claims secured by commercial						
property	8,928,537	-	8,928,537	-	8,928,537	8,928,537
Past due loans	1,106,533	-	696,942	4,768	692,174	936,414
Other assets	1,836,449	-	1,836,449	-	1,836,449	1,333,430
Total claims	36,739,843	6,446,778	42,777,030	1,967,200	40,809,830	32,461,191
Settlement risk - from SR 1						-
Total credit risk						32,461,191
2008						
Claims on Sovereigns	3,995,496	1,302,000	5,297,496	-	5,297,496	41,872
Claims on Non-Central Government						
Public Sector Entities (PSES)	1,281,552	6,503	1,288,055	-	1,288,055	349,647
Claims on banks	317,728	458,572	776,300	-	776,300	303,894
Claims on securities firms	362,400	-	362,400	-	362,400	362,400
Claims on corporate	16,123,988	5,624,038	21,748,026	702,825	21,045,201	21,045,201
Claims included in the regulatory						
retail portfolio	1,735,534	21,430	1,756,964	-	1,756,964	1,457,644
Claims secured by residential property	1,563,932	-	1,563,932	-	1,563,932	948,578
Claims secured by commercial	7,134,078	-	7,134,078	-	7,134,078	7,134,078
property						
Past due loans	337,214	-	90,510	-	90,510	122,008
Other assets	2,256,316	-	2,256,316	-	2,256,316	1,623,236
Total claims	35,108,238	7,412,543	42,274,077	702,825	41,571,252	33,388,558
Settlement risk - from SR 1						-
Total credit risk						33,388,558

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Capital management (continued)

Capital resources and adequacy (continued)

Risk weights for credit risk (continued)

The Group uses the following external credit assessment institutions (ECAIs): Standard & Poors', Moody's, Fitch and Capital Intelligence. The external rating of ECAI is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings. The Group also uses various Credit Risk Mitigation techniques (CRM). However, only cash and bank guarantees are used in calculation of Pillar I Capital requirements. The total exposure to Banks before CRM includes AED 836,391 thousand (2008: AED 682,132 thousand) rated exposure.

Risk weighted assets as per standardized approach is set out below:

	2009		2008	
	Exposure	Risk weighted assets	Exposure	Risk weighted assets
	AED'000	AED'000	AED'000	AED'000
Gross exposure prior to CRM	42,777,030	34,428,391	42,274,077	34,091,383
Less: Eligible financial collateral	1,967,200	1,967,200	702,825	702,825
Net exposure after CRM	<u>40,809,830</u>	<u>32,461,191</u>	<u>41,571,252</u>	<u>33,388,558</u>

Risk weights for market risk

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

Risk weight for operation risk

Capital requirement for operation risk is calculated using basic indicator approach. The total capital requirement is calculated as 15% of last three years average income.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

7. FINANCIAL ASSETS AND LIABILITIES

7.1 Financial assets and liabilities classification

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 AED'000	Available- For-sale	Other amortized cost	Total carrying amount
2009						
Cash and balances with central bank	-	-	-	-	3,651,928	3,651,928
Due from banks	-	-	-	-	1,159,071	1,159,071
Loans and advances	-	-	28,376,823	-	-	28,376,823
Investment securities	16,282	1,066,143	-	814,150	-	1,896,575
Other assets	18,299	-	-	-	1,103,473	1,121,772
	<u>34,581</u>	<u>1,066,143</u>	<u>28,376,823</u>	<u>814,150</u>	<u>5,914,472</u>	<u>36,206,169</u>
Due to banks	-	-	-	-	766,568	766,568
Customers' deposits	-	-	-	-	27,928,454	27,928,454
Medium term borrowing	-	-	-	-	1,469,200	1,469,200
Other liabilities	31,827	-	-	-	1,181,250	1,213,077
	<u>31,827</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,345,472</u>	<u>31,377,299</u>
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>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

7. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

7.2 Fair value measurement – Fair value hierarchy:

2009	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments			
Equity	309,173	-	-
Fund of funds	122,603	-	-
Fixed and floating rate securities	398,656	-	-
Forward foreign exchange contracts	-	14,010	-
Interest rate swaps	-	(27,538)	-
2008			
Investments			
Equity	497,795	-	-
Fund of funds	340,496	-	-
Fixed and floating rate securities	255,270	-	-
Forward foreign exchange contracts	-	42,395	-
Interest rate swaps	-	(5,545)	-

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

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Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

8. CASH AND BALANCES WITH CENTRAL BANK

	2009 AED'000	2008 AED'000
Cash on hand	486,738	577,570
Balances with the Central Bank	421,004	10,743
Statutory reserves with the Central Bank	1,444,186	1,620,270
Negotiable certificates of deposit with the Central Bank	1,300,000	-
	<u>3,651,928</u>	<u>2,208,583</u>
Within UAE	<u>3,651,928</u>	<u>2,208,583</u>

9. DUE FROM BANKS

	2009 AED'000	2008 AED'000
Current and demand deposits	98,006	30,870
Placements	1,061,065	888,849
	<u>1,159,071</u>	<u>919,719</u>

Due from banks include current and demand deposits of AED 96.7 million (2008: AED 25 million) and nil placements (2008: nil) with banks outside UAE.

10. LOANS AND ADVANCES

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

	2009 AED'000	2008 AED'000
Overdrafts	7,521,230	8,327,210
Loans	19,781,378	18,165,365
Advances against letters of credit and trust receipts	790,511	1,068,273
Bills discounted	1,021,214	1,345,326
Gross loans and advances	<u>29,114,333</u>	<u>28,906,174</u>
Less: provisions for impairment losses	(737,510)	(326,916)
Net loans and advances	<u>28,376,823</u>	<u>28,579,258</u>

The movements in provisions for impairment losses are as follows:

	2009 AED'000	2008 AED'000
Balance at 1 January	326,916	284,843
Amounts written off during the year	(17,817)	(10,067)
Charge for the year as specific	178,973	60,704
Charge for the year as collective	232,135	22,750
Interest not recognized	43,154	30,785
Recoveries	(25,851)	(62,099)
	<u>737,510</u>	<u>326,916</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

11. INVESTMENT SECURITIES

	Domestic AED'000	Regional AED'000	International AED'000	Total AED'000
2009				
Held for trading				
Equities	14,420	-	-	14,420
Fund of funds	-	1,862	-	1,862
Available-for-sale				
Equities	294,753	-	-	294,753
Fund of funds	34,967	85,774	-	120,741
Fixed rate securities				
- Government	47,014	-	43,250	90,264
- Others	71,265	-	19,932	91,197
Floating rate securities				
- Non government	159,896	57,299	-	217,195
Held-to-maturity				
Fixed rate securities				
- Government	167,166	-	-	167,166
Floating rate securities				
- Government	835,801	-	-	835,801
- Others	63,176	-	-	63,176
Total investment securities	1,688,458	144,935	63,182	1,896,575
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				
- Non government	147,002	48,300	-	195,302
Other investment	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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

11. INVESTMENT SECURITIES (continued)

11.1 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.

11.2 Impairment loss on available-for-sale investments

During the year, the market value of some of the investments in local and regional listed companies and bonds, classified as available-for-sale investments had declined. Although the respective companies are not impaired, the Group has booked an impairment loss that aggregates to AED 44 million (2008: AED 397 million). Accordingly, this impairment loss has been removed from other comprehensive income and recognized in the income statement in accordance with the requirements of IFRS.

11.3 Reclassification of investment securities

The Group, as a result of the adoption of amendments of IAS-39 financial instruments; recognition and measurement and IFRS -7 Financial Instruments: Disclosures, introduced in October 2008, had reclassified investments amounting to AED 84 million, being the fair value as at 1 July 2008, from the fair value through profit or loss classification to the available-for-sale investments category. As there was no trading in the reclassified investments during the last 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:

	2009 AED'000	2008 AED'000
Before reclassification		
Unrealised fair value loss recognized in income statement	-	(8,629)
After reclassification		
Unrealised fair value loss recognized in statement of other comprehensive income	(600)	(60,481)

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Notes to the consolidated financial statements (continued)
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12. PROPERTY AND EQUIPMENT

	Freehold land and buildings	Leasehold improve- ments	Furniture, equipment & vehicles AED'000	Capital work in progress	Total
	←-----→				
Cost					
At 1 January 2009	439,574	31,744	182,809	70,902	725,029
Additions during the year	9,853	4,874	34,443	104,744	153,914
Transfer from capital work in progress	-	-	1,424	(1,424)	-
Disposals	-	(11,714)	(5,760)	-	(17,474)
Written off	-	-	-	(1,668)	(1,668)
At 31 December 2009	<u>449,427</u>	<u>24,904</u>	<u>212,916</u>	<u>172,554</u>	<u>859,801</u>
Depreciation					
At 1 January 2009	113,262	19,334	116,634	-	249,230
Charge for the year	16,406	4,307	30,414	-	51,127
On disposals	-	(11,714)	(5,725)	-	(17,439)
On written off	-	-	-	-	-
At 31 December 2009	<u>129,668</u>	<u>11,927</u>	<u>141,323</u>	<u>-</u>	<u>282,918</u>
Net book values					
At 31 December 2009	<u>319,759</u>	<u>12,977</u>	<u>71,593</u>	<u>172,554</u>	<u>576,883</u>

	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 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 2009

13. OTHER ASSETS

	2009 AED'000	2008 AED'000
Interest receivable	269,838	198,185
Accounts receivable and prepayments	52,462	106,850
Customer's indebtedness for acceptances	780,719	975,979
Positive fair value of derivatives (note 28)	18,299	54,380
Accounts receivable from brokerage customers	454	5,241
	<u>1,121,772</u>	<u>1,340,635</u>

14. DUE TO BANKS

	2009 AED'000	2008 AED'000
Current and demand deposits	198,920	1,273,322
Term loans and deposits	567,648	1,087,847
	<u>766,568</u>	<u>2,361,169</u>

15. CUSTOMERS' DEPOSITS

	2009 AED'000	2008 AED'000
Current and demand accounts	8,291,089	8,412,308
Savings accounts	1,178,998	1,126,266
Time deposits	18,458,367	16,216,074
	<u>27,928,454</u>	<u>25,754,648</u>

	2009 AED'000	2008 AED'000
By sector:		
Government	3,120,351	2,277,381
Corporate	18,772,765	17,411,337
Retail	6,035,338	6,065,930
	<u>27,928,454</u>	<u>25,754,648</u>

Subordinated term loans

Customers' deposits include deposits received by the group in 2008, aggregating to AED 1,841.526 million from UAE Ministry of Finance. On 9 December 2009 (the re-categorization date), the Group entered into an agreement with UAE Ministry of Finance, through which these deposits are now subordinate to other claims and allowed by Central Bank to be treated as lower Tier 2 capital. The subordinate term loan carries interest which ranges from 4% per annum to 6.5% per annum payable quarterly from the date of re-categorization until 7 years.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

16. MEDIUM TERM BORROWING

In 2008, 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.

17. OTHER LIABILITIES

	2009 AED'000	2008 AED'000
Interest payable	151,705	158,598
Employees' terminal benefits	55,793	52,630
Accounts payable and unearned fee income	216,171	232,788
Negative fair value of derivatives (note 28)	31,827	17,530
Liabilities under acceptances	780,719	975,979
Accounts payable to brokerage customers	32,655	31,576
	1,268,870	1,469,101

18. EQUITY

Share capital

The issued and fully paid up ordinary share capital as at 31 December 2009 comprised 1,764,806,906 ordinary shares of AED 1 each (2008: 1,411,845,525 shares of AED 1 each).

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 explained in note 12, and is not available for distribution to the shareholders.

General reserve

In accordance with article 87 of the Bank's Articles of Association, a minimum of 10% of the annual net profit be transferred to general reserve until such time as this reserve equals 50% of share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the Shareholders.

Cumulative changes in fair values of AFS investments and cash flow hedge

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 are not available for distribution to the shareholders.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

18. EQUITY (CONTINUED)

Proposed distributions

The Board of Directors proposes the following distributions for approval by the Annual General Meeting of the shareholders to be held on 24th February 2010.

i) *Proposed bonus issue*

A bonus issue of 10 per cent in the ratio of 1 share for every 10 shares held (2008: 25 per cent in the ratio of 2.5 shares for every 10 shares held) 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 (2008: 15%) of the share capital amounting to AED 264,721,000 (2008: AED 211,777,000) is proposed representing a dividend of AED 0.15 per share (2008: AED 0.15 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 (2008: AED 6,000,000) has been treated as an appropriation from equity.

19. INTEREST INCOME

	2009 AED'000	2008 AED'000
Loans and advances	1,960,122	1,647,007
Negotiable certificates of deposit with the Central Bank	1,394	30,041
Due from banks	2,789	15,933
Held-to-maturity investments	54,254	22,345
Available-for-sale investments	19,807	42,399
Derivative financial instruments	-	11,757
	<u>2,038,366</u>	<u>1,769,482</u>

20. INTEREST EXPENSE

	2009 AED'000	2008 AED'000
Due to banks	18,186	115,550
Customers' deposits	663,027	490,535
Medium term borrowing	24,380	19,420
Derivative financial instruments	15,238	-
	<u>720,831</u>	<u>625,505</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

21. NET FEES AND COMMISSION INCOME

	2009 AED'000	2008 AED'000
Lending activities	77,966	66,002
Trade finance activities	140,570	145,262
Others	129,777	126,536
	<u>348,313</u>	<u>337,800</u>

22. NET GAINS / (LOSSES) FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - HELD FOR TRADING

	2009 AED'000	2008 AED'000
Net realized gains / (losses) on sale of investments at fair value through profit or loss	449	(19,599)
Net unrealized gains / (losses) on investments at fair value through profit or loss	9,776	(41,190)
	<u>10,225</u>	<u>(60,789)</u>

23. DIVIDEND INCOME

	2009 AED'000	2008 AED'000
Investments at fair value through profit or loss – held for trading	1,338	3,456
Available-for-sale investments	9,283	15,763
	<u>10,621</u>	<u>19,219</u>

24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff related expenses of AED 377.9 million (2008: AED 344.4 million).

25. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share is based on the Group's profit attributable to shareholders for the year amounting to AED 803.345 million (2008: AED 771.381 million), and on the weighted average number of shares in issue totaling 1,764,806,906 (2008: 1,764,806,906).

There was no dilutive effect on earnings per share.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2009

26. CASH AND CASH EQUIVALENTS

	2009 AED'000	2008 AED'000
Cash on hand	486,738	577,570
Balances with the Central Bank	421,004	10,743
Negotiable certificates of deposit with the Central Bank	1,300,000	-
Due from banks maturing within three months	1,159,071	919,719
	3,366,813	1,508,032
Due to banks maturing within three months	(619,568)	(2,214,807)
	<u>2,747,245</u>	<u>(706,775)</u>

27. 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.

	2009 AED'000	2008 AED'000
Contingent liabilities:		
Letters of credit	1,572,648	2,490,037
Guarantees	8,409,545	8,305,460
	<u>9,982,193</u>	<u>10,795,497</u>
Credit commitments:		
Undrawn commitments to extend credit	8,973,693	10,332,907
Total contingent liabilities and commitments	<u>18,955,886</u>	<u>21,128,404</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

28. 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 2009	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 →						
Held for trading:							
Foreign exchange							
Forwards	16,803	2,793	1,719,253	228,089	1,491,164	-	-
	16,803	2,793	1,719,253	228,089	1,491,164	-	-
Held as cash							
flow hedges:							
Interest rate swaps against							
trading instruments	1,496	-	328,300	-	148,300	-	180,000
Interest rate swaps	-	29,034	954,980	-	-	954,980	-
	1,496	29,034	1,283,280	-	148,300	954,980	180,000
Total	18,299	31,827	3,002,533	228,089	1,639,464	954,980	180,000

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 →						
Held for trading:							
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	-
Held as cash							
flow hedges:							
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	-

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Notes to the consolidated financial statements (continued)

for the year ended 31 December 2009

29. SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure that are regularly reviewed by the Management Committee in order to allocate resources to the segment and to assess its performance.

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 loan 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 deposit 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
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29. SEGMENTAL REPORTING (CONTINUED)

Segmental analysis for the year ended 31 December 2009 was as follows:

	Corporate banking	Consumer banking	Treasury and investments AED'000	Other operations	Total
	←-----→				
Assets	25,713,604	2,663,219	6,707,574	1,698,655	36,783,052
Liabilities	21,893,116	6,035,338	2,235,768	1,268,870	31,433,092
Net interest income	1,070,922	199,926	46,687	-	1,317,535
Other income	260,004	51,229	82,837	56,317	450,387
Total operating income	1,330,926	251,155	129,524	56,317	1,767,922
Allocated cost	287,517	138,521	13,345	-	439,383
Unallocated cost	-	-	-	44,787	44,787
Provisions for impairment losses net of recoveries	368,398	16,859	44,023	-	429,280
Depreciation	6,618	8,956	1,656	33,897	51,127
Total expenses	662,533	164,336	59,024	78,684	964,577
Net profit for the year	668,393	86,819	70,500	(22,367)	803,345

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

	Corporate banking	Consumer banking	Treasury and investments AED'000	Other operations	Total
	←-----→				
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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2009

30. 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		Other related parties	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
	AED'000	AED'000	AED'000	AED'000
Loans and advances				
At 1 January	155,439	152,705	318,751	153,900
Loans issued	28,455	39,584	38,987	221,730
Repayments	(1,552)	(36,850)	(109,257)	(56,879)
	=====	=====	=====	=====
Closing balance	182,342	155,439	248,481	318,751
	=====	=====	=====	=====
Deposits				
At 1 January	46,301	64,290	44,445	68,027
Received	6,655	39,037	31,309	31,280
Repaid	(10,757)	(57,026)	(11,554)	(54,862)
	=====	=====	=====	=====
Closing balance	42,199	46,301	64,200	44,445
	=====	=====	=====	=====
Interest income	8,321	2,867	17,377	5,488
Interest expense	1,357	488	757	257
	=====	=====	=====	=====

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 (2008: AED NIL)

The loans issued to directors during the year amounted to AED 67.4 million (2008: AED 261.3 million), are repayable monthly over a maximum period of 5 years (2008: 5 years) and carry interest at rates comparable to third party loans. These loans are unsecured (2008: unsecured).

Key management compensation	2009 AED'000	2008 AED'000
Salaries and other short-term benefits	14,093	15,320
Post retirement benefits	<u>587</u>	<u>858</u>

31. COMPARATIVE FIGURES

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