

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
30 June 2010

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements

For the six-month period ended 30 June 2010

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Independent Auditors' Report on Review of Interim Financial Information

To the Shareholders Commercial Bank of Dubai PSC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Commercial Bank of Dubai PSC ("the Bank") and its subsidiary CBD Financial Services LLC (collectively referred to as "the Group") as at 30 June 2010, and the related condensed consolidated interim statement of comprehensive income (comprising a condensed consolidated interim statement of comprehensive income and a separate condensed consolidated interim income statement), condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the six-month period then ended (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Vijendranath Malhotra
Registration No: 48 B

14 JUL 2010

Commercial Bank of Dubai PSC

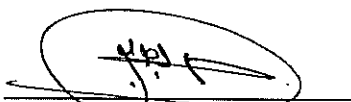
Condensed consolidated interim statement of financial position

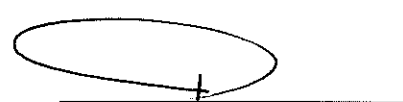
As at 30 June 2010

	Note	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited	30 June 2009 AED'000 Reviewed
ASSETS				
Cash and balances with Central Bank		3,214,597	3,651,928	3,248,009
Due from banks	3	1,796,830	1,159,071	303,193
Loans and advances	4	28,127,990	28,376,823	29,004,975
Investment securities	5	1,758,592	1,896,575	1,951,676
Property and equipment		607,525	576,883	500,292
Other assets		1,456,155	1,121,772	1,459,490
Total assets		36,961,689	36,783,052	36,467,635
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		278,581	766,568	1,205,044
Customers' deposits	6	28,083,647	27,928,454	27,173,650
Medium term borrowing	7	1,469,200	1,469,200	1,469,200
Other liabilities		1,562,043	1,268,870	1,599,086
Total liabilities		31,393,471	31,433,092	31,446,980
EQUITY				
Share capital	8	1,941,287	1,764,806	1,764,806
Legal reserve		1,379,683	1,379,683	1,379,679
Capital reserve		38,638	38,638	38,638
General reserve		1,100,000	1,100,000	1,100,000
Cumulative changes in fair values of AFS investments and cash flow hedge instruments		12,529	36,477	9,017
Reserve for proposed bonus issue	8	-	176,481	-
Proposed cash dividend		-	264,721	-
Proposed directors' remuneration		-	6,000	-
Retained earnings		1,096,081	583,154	728,515
Total equity		5,568,218	5,349,960	5,020,655
Total liabilities and equity		36,961,689	36,783,052	36,467,635

The condensed consolidated interim financial statements were approved by the Board of Directors on 14 July 2010.

The attached notes on pages 7 to 25 form part of these condensed consolidated interim financial statements.


H.E. Ahmed Humaid Al Tayer
Chairman


Mr. Peter Baltussen
Chief Executive Officer

The review report of the Auditors, is set out on page 1.

Condensed consolidated interim income statement

For the six-month period ended 30 June 2010

		Six-month period ended		Three-month period ended	
	Note	30 June 2010	30 June 2009	30 June 2010	30 June 2009
		AED '000 Reviewed	AED '000 Reviewed	AED '000 Reviewed	AED '000 Reviewed
Interest income		980,471	1,020,197	485,573	507,453
Interest expense		(285,198)	(371,979)	(137,170)	(182,665)
Net interest income		695,273	648,218	348,403	324,788
Net fees and commission income		174,884	172,304	87,474	87,502
Net gain from dealing in foreign currencies and derivatives		41,097	45,112	20,156	20,121
Net gains from investments FVPL- held for trading		13,829	9,193	(2,057)	(172)
Net gains/ (losses) from sale of available-for- sale investments		2,952	(32,118)	1,574	2,913
Dividend and other investment income		7,501	12,784	3,370	5,378
Other income		7,634	7,499	3,757	3,652
		943,170	862,992	462,677	444,182
Provision for impairment losses	4	(179,461)	(75,094)	(84,914)	(45,556)
Recoveries		17,382	12,734	11,444	3,823
Impairment losses on available-for-sale investments		-	(34,842)	-	-
Net interest and other income		781,091	765,790	389,207	402,449
General and administrative expenses		(242,016)	(239,784)	(120,786)	(121,671)
Depreciation		(26,148)	(24,506)	(13,113)	(13,180)
Total expenses		(268,164)	(264,290)	(133,899)	(134,851)
Profit for the period		512,927	501,500	255,308	267,598
Earnings per share (AED)	9	0.27	0.26	0.14	0.14

The attached notes on pages 7 to 25 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of comprehensive income For the six-month period ended 30 June 2010

	Six-month period ended		Three-month period ended	
	30 June 2010 AED'000 Reviewed	30 June 2009 AED'000 Reviewed	30 June 2010 AED'000 Reviewed	30 June 2009 AED'000 Reviewed
Net profit for the period	512,927	501,500	255,308	267,598
Other comprehensive income:				
Changes in fair value of effective portion of cash flow hedge	2,821	(18,284)	2,730	1,657
Changes in available-for-sale investments:				
Realised (gains)/losses on sale of available-for-sale investments	(3,219)	8,154	(1,810)	7,528
Amortisation of reclassified investments	13,966	16,312	6,513	8,233
Revaluation of available-for-sale investments	(37,516)	(7,275)	(13,467)	26,993
Impairment losses on available-for-sale investments	-	34,842	-	-
Net change in available-for-sale investments	(26,769)	52,033	(8,764)	42,754
Net change in AFS and cash flow hedge instruments	(23,948)	33,749	(6,034)	44,411
Directors' remuneration	(6,000)	(6,000)	-	-
Other comprehensive (expense)/income for the period	(29,948)	27,749	(6,034)	44,411
Total comprehensive income for the period	482,979	529,249	249,274	312,009

The attached notes on pages 7 to 25 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of changes in equity

For the six-month period ended 30 June 2010

	Share capital AED'000	Legal reserve AED'000	Capital reserve AED'000	General reserve AED'000	Cumulative changes in fair values of AFS investments and cash flow hedge instruments AED'000	Retained earnings AED'000	Proposed distributions AED'000	Total AED'000
At 1 January 2009	1,411,845	1,379,679	38,638	1,100,000	(24,732)	227,015	570,738	4,703,183
Cash dividend paid (15%)	-	-	-	-	-	-	(211,777)	(211,777)
Bonus shares issued (25%)	352,961	-	-	-	-	-	(352,961)	-
Total comprehensive income for the period	-	-	-	-	33,749	501,500	(6,000)	529,249
At 30 June 2009 (Reviewed)	1,764,806	1,379,679	38,638	1,100,000	9,017	728,515	-	5,020,655
At 1 January 2010	1,764,806	1,379,683	38,638	1,100,000	36,477	583,154	447,202	5,349,960
Cash dividend paid (15%)	-	-	-	-	-	-	(264,721)	(264,721)
Bonus shares issued (10%)	176,481	-	-	-	-	-	(176,481)	-
Total comprehensive income for the period	-	-	-	-	(23,948)	512,927	(6,000)	482,979
At 30 June 2010 (Reviewed)	1,941,287	1,379,683	38,638	1,100,000	12,529	1,096,081	-	5,568,218

The attached notes on pages 7 to 25 form part of these condensed consolidated interim financial statements.
The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of cash flows

For the six-month period ended 30 June 2010

		Six-month period ended	
		30 June 2010 AED'000	30 June 2009 AED'000
OPERATING ACTIVITIES	<i>Note</i>	Reviewed	Reviewed
Net profit for the period		512,927	501,500
<i>Adjustments for:</i>			
Depreciation		26,148	24,506
Impairment losses on available-for-sale investments		-	34,842
Income from sale of fixed assets		-	(25)
Dividend and other investment income		(7,501)	(12,784)
Net unrealised gains on investments at fair value through profit or loss - held for trading		(13,588)	(10,247)
Realised (gains)/ losses on sale of investments		(1,793)	30,853
Net unrealised losses on derivatives		7,551	15,528
Directors' remuneration paid		(6,000)	(6,000)
		517,744	578,173
(Increase) /decrease in statutory reserve with the Central Bank		(104,770)	188,413
Decrease / (increase) in loans and advances		248,833	(425,716)
Increase in other assets		(107,163)	(53,733)
Increase in due from banks maturing after three months		(2,496)	-
Increase in customers' deposits		155,193	1,419,002
Increase in other liabilities		61,223	31,051
Decrease in due to banks maturing after three months		(147,000)	(146,362)
Net cash flow from operating activities		621,564	1,590,828
INVESTING ACTIVITIES			
Purchase of investments		(145,149)	(122,623)
Purchase of property and equipment		(56,790)	(49,029)
Dividend income		7,896	10,608
Proceeds from sale of investments		271,349	403,014
Sale of equipment		-	55
Net cash flow from investing activities		77,306	242,025
FINANCING ACTIVITIES			
Dividend paid		(264,721)	(211,777)
Net cash flow used in financing activities		(264,721)	(211,777)
Net increase in cash and cash equivalents		434,149	1,621,076
Cash and cash equivalents at 1 January		2,747,245	(706,775)
Cash and cash equivalents at the end of the period	<i>10</i>	3,181,394	914,301

The attached notes on pages 7 to 25 form part of these condensed consolidated interim financial statements.
The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the six-month period ended 30 June 2010

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 in Dubai Financial Market.

The condensed consolidated interim financial statements of the Bank for the six-month period ended 30 June 2010 comprise 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) and commenced its operations from 9 October 2005. The Bank effectively holds 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 Itihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 Interim Financial Reporting. These financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2009.

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended 31 December 2009.

b) Basis of preparation

The condensed consolidated interim 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.

The condensed consolidated interim financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the "functional currency", rounded to the nearest thousand.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the six-month period ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Basis of preparation (continued)

The Group has consistently applied the accounting policies and methods of computation used for the preparation of last published annual consolidated financial statements for the year ended 31 December 2009.

c) 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 condensed consolidated interim financial statements from the date the control commences until the date that control ceases.

Transactions eliminated on consolidation

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

d) 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.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

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.

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 rate method.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments at the fair value through profit or loss category are included in the statement of income 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 statement of income. 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 statement of income 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.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the six-month period ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

Fair value measurement principles (continued)

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 entity 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.

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.

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 condensed consolidated interim financial statements (continued)
For the six-month period ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

Identification and measurement of impairment (continued)

Individually assessed loans

At each reporting 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 Bank's 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; and
- 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.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the six-month period ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

Identification and measurement of impairment (continued)

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 reporting date which will only be specifically identified in the future.

Individually assessed loans for which no evidence of loss has been identified 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 reporting date which will only be specifically identified in the future.

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.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the six-month period ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

Identification and measurement of impairment (continued)

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 statement of income, the impairment loss is reversed, with the amount of the reversal recognised in statement of income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the statement of income and is recognised directly in other comprehensive income.

e) Derivative financial instruments

Classification

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

Initial and subsequent measurement

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

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

Gains and losses on subsequent measurement

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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the six-month period ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) 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 condensed consolidated interim financial statements (continued)
For the six-month period ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Hedging instruments (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 statement of income, 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 equity remains in equity 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 equity 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.

g) Risk Governance and Financial Risk Management

The Group's Risk Governance and Financial Risk Management objectives, policies and procedures are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2009.

3. DUE FROM BANKS

	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited
Current and demand deposits	50,570	98,006
Placements	1,746,260	1,061,065
	<u>1,796,830</u>	<u>1,159,071</u>

Due from banks include current and demand deposits of AED 50.6 million (31 December 2009: AED 96.7 million) and AED1,599.3 million placements (31 December 2009: nil) with banks outside UAE.

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Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

4. LOANS AND ADVANCES

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

	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited
Analysis by type		
Overdrafts	7,252,543	7,521,230
Loans	19,979,104	19,781,378
Advances against letters of credit and trust receipts	825,580	790,511
Bills discounted	956,733	1,021,214
	<u>29,013,960</u>	<u>29,114,333</u>
Less: Provisions for impairment losses	(885,970)	(737,510)
Net loans and advances	<u><u>28,127,990</u></u>	<u><u>28,376,823</u></u>
	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited
Analysis by sector		
Commercial and business:-		
Agriculture & allied activities	29,913	25,534
Mining & quarrying	289,063	335,519
Manufacturing	1,628,069	1,631,551
Construction & real estate	3,884,885	3,842,416
Trade	7,722,384	8,177,457
Transport & communication	449,098	493,674
Services	3,051,777	2,956,473
Total commercial and business	<u>17,055,189</u>	<u>17,462,624</u>
Banks and financial institutions	777,534	688,502
Government and public sector entities	1,709,424	1,782,814
Personal - schematic	2,268,278	2,422,263
Individual - for business	6,689,914	6,231,736
Others	513,621	526,394
	<u>29,013,960</u>	<u>29,114,333</u>
Less: Provisions for impairment losses	(885,970)	(737,510)
Net loans and advances	<u><u>28,127,990</u></u>	<u><u>28,376,823</u></u>

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

4. LOANS AND ADVANCES (CONTINUED)

The movement in provisions for impairment losses is as follows:

	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited
Balance at 1 January	737,510	326,916
Amounts written off during the period/year	(57,498)	(17,817)
Charge for the period/year	179,461	411,108
Interest not recognised	43,879	43,154
Recoveries	(17,382)	(25,851)
	<u>885,970</u>	<u>737,510</u>

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Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

5. INVESTMENT SECURITIES

	Domestic AED'000	Regional AED'000	International AED'000	Total AED'000
30 June 2010 (Reviewed)				
Held for trading				
Equities	8,248	-	-	8,248
Fund of funds	-	1,459	-	1,459
Available-for-sale				
Equities	246,893	-	-	246,893
Fund of funds	36,110	85,468	-	121,578
Fixed rate securities				
- Government	67,537	-	41,505	109,042
- Others	101,282	-	7,999	109,281
Non government floating rate securities	171,130	61,247	-	232,377
Held-to-maturity				
Fixed rate government securities	168,915	-	-	168,915
Floating rate securities				
- Government	697,623	-	-	697,623
- Others	63,176	-	-	63,176
Total investment securities	1,560,914	148,174	49,504	1,758,592
	Domestic AED'000	Regional AED'000	International AED'000	Total AED'000
31 December 2009 (Audited)				
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
Non government floating rate securities	159,896	57,299	-	217,195
Held-to-maturity				
Fixed rate government securities	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

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Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

5. INVESTMENT SECURITIES (CONTINUED)

5.1 Fund of funds investments

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

5.2 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 prior to reclassification, 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:

	30 June 2010 Reviewed AED'000	31 December 2009 Audited AED'000
Before reclassification		
Unrealised fair value loss recognised in statement of income	-	-
After reclassification		
Unrealised fair value loss recognised in cumulative changes in fair values	(3,120)	(600)

6. CUSTOMERS' DEPOSITS

Subordinated term loans

Customers' deposits include deposits received by the Group in 2008, aggregating to AED 1,841.526 million (31 December 2009: 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 equity in the event of certain conditions as set out in the agreement and converted as lower Tier 2 capital. The subordinate debt 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.

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Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

7. 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.

8. EQUITY

Share capital

The issued and fully paid up ordinary share capital as at 30 June 2010 comprised 1,941,287,596 ordinary shares of AED 1 each (31 December 2009: 1,764,806,906 shares of AED 1 each).

Bonus issue

A bonus issue of 10% in the ratio of 1 bonus shares for every 10 shares held was approved by the shareholders in the Ordinary General Meeting held on 24 February 2010, and transferred to the share capital of the Group.

9. EARNINGS PER SHARE

The earnings per share is based on the Group's profit for the six and three month period ended 30 June 2010 attributable to the shareholders amounting to AED 512,927 thousand and AED 255,308 thousand respectively (six and three month ended 30 June 2009: AED 501,500 thousand and AED 267,598 thousand respectively), and on the weighted average number of shares in issue totaling 1,941,287,596 (30 June 2009: 1,941,287,596).

10. CASH AND CASH EQUIVALENTS

	30 June 2010 AED'000 Reviewed	30 June 2009 AED'000 Reviewed
Cash in hand	548,342	567,787
Balances with the Central Bank	517,299	248,365
Negotiable certificate of deposits with the Central Bank	600,000	1,000,000
Due from banks maturing within three months	1,794,334	303,193
	<u>3,459,975</u>	<u>2,119,345</u>
Due to banks maturing within three months	(278,581)	(1,205,044)
	<u>3,181,394</u>	<u>914,301</u>

11. CONTINGENT LIABILITIES AND COMMITMENTS

The Group in the ordinary course of business enters into various types of transactions that involve undertaking certain commitments such as letters of credit, guarantees and undrawn loan commitments.

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Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

11. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited
Contingent liabilities:		
Letters of credit	1,608,450	1,572,648
Guarantees	7,870,099	8,409,545
	<u>9,478,549</u>	<u>9,982,193</u>
Credit commitments:		
Undrawn commitments to extend credit	8,455,767	8,973,693
Total contingent liabilities and commitments	<u>17,934,316</u>	<u>18,955,886</u>

12. SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure.

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

Business segments

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

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

Geographical

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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

12. SEGMENTAL REPORTING (CONTINUED)

Segmental analysis for the six-month period was as follows:

	Corporate banking	Consumer banking	Treasury and investments	Other operations	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
30 June 2010 (Reviewed)					
Assets	26,196,626	1,931,364	6,770,019	2,063,680	36,961,689
Liabilities	21,468,299	6,615,348	1,747,781	1,562,043	31,393,471
 31 December 2009 (Audited)					
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
 30 June 2010 (Reviewed)					
Net interest income	571,535	87,437	36,301	-	695,273
Other income	111,147	26,355	65,379	45,016	247,897
Total operating income	682,682	113,792	101,680	45,016	943,170
Allocated cost	123,011	53,447	10,066	-	186,524
Unallocated cost	-	-	-	55,492	55,492
Provisions for impairment losses net of recoveries	143,121	18,958	-	-	162,079
Depreciation	3,385	4,580	847	17,336	26,148
Total expenses	269,517	76,985	10,913	72,828	430,243
Net profit for the year	413,165	36,807	90,767	(27,812)	512,927
 30 June 09 (Reviewed)					
Net interest income	464,222	105,711	78,285	-	648,218
Other income	129,656	25,011	34,971	25,136	214,774
Total operating income	593,878	130,722	113,256	25,136	862,992
Allocated cost	124,890	64,627	6,355	-	195,872
Unallocated cost	-	-	-	43,912	43,912
Provisions for impairment losses net of recoveries	49,732	12,628	34,842	-	97,202
Depreciation	3,073	4,157	769	16,507	24,506
Total expenses	177,695	81,412	41,966	60,419	361,492
Net profit for the year	416,183	49,310	71,290	(35,283)	501,500

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Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

13. RELATED PARTY TRANSACTIONS

	Directors and key management personnel		Other related parties	
	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited
Loans and advances				
At 1 January	182,342	155,439	248,481	318,751
Loans issued	2,498	28,455	52,509	38,987
Repayments	(14,551)	(1,552)	(47,553)	(109,257)
Closing balance	170,289	182,342	253,437	248,481
Deposits				
At 1 January	42,199	46,301	64,200	44,445
Received	16,616	6,655	6,736	31,309
Repaid	(28,653)	(10,757)	(24,152)	(11,554)
Closing balance	30,162	42,199	46,784	64,200
	30 June 2010 AED'000 Reviewed	30 June 2009 AED'000 Reviewed	30 June 2010 AED'000 Reviewed	30 June 2009 AED'000 Reviewed
Interest income	3,936	2,447	5,828	4,684
Interest expense	403	457	253	240

No provisions for impairment have been recognised in respect of loans given to related parties (31 December 2009: NIL).

The loans issued to directors during the six-month period ended 30 June 2010 are unsecured and repayable monthly over a maximum period of 5 years (31 December 2009: 5 years) and carry interest at the rates comparable to the third party loans.

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.

Key management compensation

	30 June 2010 AED'000 Reviewed	30 June 2009 AED'000 Reviewed
Salaries and other short-term benefits	6,662	6,745
Post retirement benefits	231	226

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

14. CAPITAL ADEQUACY

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 2009, 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 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 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, general 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
- General Collective provision shall not exceed 1.25% of total risk weighted assets.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the six-month period ended 30 June 2010

14. CAPITAL ADEQUACY (CONTINUED)

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

	Basel II		Basel I	
	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited	30 June 2010 AED'000 Reviewed	31 December 2009 AED'000 Audited
Core tier 1 capital				
Share capital	1,941,287	1,941,287	1,941,287	1,941,287
Legal reserve	1,379,683	1,379,683	1,379,683	1,379,683
General reserve	1,100,000	1,100,000	1,100,000	1,100,000
Retained earnings	1,096,081	583,154	1,096,081	583,154
Tier 1 Capital	5,517,051	5,004,124	5,517,051	5,004,124
Upper tier 2 capital				
Fair value reserve	5,636	16,415	5,636	16,415
Collective provisions	364,024	329,024	-	-
	369,660	345,439	5,636	16,415
Lower tier 2 capital				
Subordinated term loans	1,841,526	1,841,526	1,841,526	1,841,526
Tier 2 capital	2,211,186	2,186,965	1,847,162	1,857,941
Deductions from Tier 1 & Tier 2				
Investments in un consolidated subsidiaries	(10,000)	(10,000)	(10,000)	(10,000)
Total capital base (a)	7,718,237	7,181,089	7,354,213	6,852,065
Risk weighted assets (RWA) Pillar 1				
On-balance sheet	-	-	26,757,881	27,027,656
Off-balance sheet	-	-	5,939,387	5,796,691
Credit risk	32,652,111	32,461,191	-	-
Market risk	26,967	39,848	-	-
Operation risk	3,070,372	3,070,372	-	-
Risk weighted assets (b)	35,749,450	35,571,411	32,697,268	32,824,347
Tier 1 ratio	15.43%	14.06%	16.87%	15.25%
Capital adequacy ratio (Pillar) 1 (c)	21.59%	20.19%	22.49%	20.86%
Pillar 2 capital charge (d)	1.18%	1.18%	-	-
Capital adequacy ratio (c – d)	20.41%	19.01%	22.49%	20.86%

15. COMPARATIVE FIGURES

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