

Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2010

Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2010

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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 2010, the consolidated statements of comprehensive income (comprising a consolidated statement of comprehensive income and a separate consolidated income statement), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 the 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated 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 Requirement

As required by the UAE 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 2010, which may have had a material adverse effect on the business of the Group or its financial position.

KPMG
Munther Dajani
Registration No: 268

30 JAN 2011

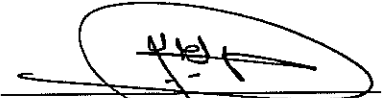
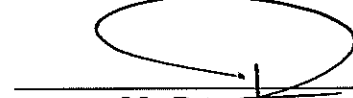
Commercial Bank of Dubai PSC

Consolidated statement of financial position as at 31 December 2010

		2010 AED'000	2009 AED'000
	<i>Note</i>		
ASSETS			
Cash and balances with Central Bank	8	5,076,443	3,651,928
Due from banks	9	2,297,520	1,159,071
Loans and advances and Islamic financing	10	27,164,988	28,376,823
Investment securities	11	1,708,883	1,896,575
Property and equipment	12	616,475	576,883
Other assets	13	1,646,939	1,121,772
Total assets		38,511,248	36,783,052
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	14	309,273	766,568
Customers' deposits and Islamic customers' deposits	15	29,209,662	27,928,454
Medium term borrowing	16	1,469,200	1,469,200
Other liabilities	17	1,644,172	1,268,870
Total liabilities		32,632,307	31,433,092
EQUITY			
Share capital	18	1,941,287	1,764,806
Legal reserve	18	1,379,683	1,379,683
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	36,292	65,511
Cumulative changes in fair values of cash flow hedge instruments	18	(20,702)	(29,034)
Reserve for proposed bonus issue	18	-	176,481
Proposed cash dividend	18	388,257	264,721
Proposed directors' remuneration	18	7,000	6,000
Retained earnings		1,008,486	583,154
Total equity		5,878,941	5,349,960
Total liabilities and equity		38,511,248	36,783,052

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 30th of January 2011.

The attached notes on pages 8 to 72 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 2010

	<i>Note</i>	2010 AED'000	2009 AED'000
Interest income and income from Islamic financing	19	1,968,464	2,038,366
Interest expense and distributions to Islamic depositors	20	<u>(582,986)</u>	<u>(720,831)</u>
Net interest income and net income from Islamic financing		1,385,478	1,317,535
Net fees and commission income	21	344,576	348,313
Net gains from dealing in foreign currencies		88,537	86,349
Net gains from investments at fair value through profit or loss – held for trading	22	14,459	10,225
Net gains / (losses) from sale of available-for-sale investments		23,974	(22,354)
Dividend income	23	7,897	10,621
Other income		25,122	17,233
		<u>1,890,043</u>	<u>1,767,922</u>
Provisions for impairment losses on loans and advances and Islamic financing		(554,453)	(411,108)
Recoveries		28,002	25,851
Impairment losses on available-for-sale investments	11.2	-	(44,023)
Net interest, net income from Islamic financing and other income		<u>1,363,592</u>	<u>1,338,642</u>
General and administrative expenses	24	(487,702)	(484,170)
Depreciation	12	(55,301)	(51,127)
Total expenses		<u>(543,003)</u>	<u>(535,297)</u>
Net profit for the year		<u>820,589</u>	<u>803,345</u>
Basic and diluted earnings per share	25	<u>AED 0.42</u>	<u>AED 0.41</u>

The attached notes on pages 8 to 72 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 2010

	2010 AED'000	2009 AED'000
Net profit for the year	820,589	803,345
Other comprehensive income:		
Changes in fair value of effective portion of cash flow hedge	8,332	(23,489)
Changes in available-for-sale investments:		
Realized (gains) / losses on sale of available-for-sale investments	(23,974)	22,354
Amortization of reclassified investments	23,320	32,016
Revaluation of available-for-sale investments	(28,565)	(13,695)
Impairment losses on available-for-sale investments	-	44,023
Net change in available-for-sale investments	(29,219)	84,698
Directors' remuneration	(6,000)	(6,000)
Other comprehensive (expense) / income for the year	(26,887)	55,209
Total comprehensive income for the year	793,702	858,554

The attached notes on pages 8 to 72 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 2010

	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 2009	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
Transactions with owners, recorded directly in equity:									
Bonus shares (10%)	176,481	-	-	-	-	-	-	(176,481)	-
Cash dividend paid (15%)	-	-	-	-	-	-	-	(264,721)	(264,721)
Proposed cash dividend (20%)	-	-	-	-	-	-	(388,257)	388,257	-
Proposed directors' remuneration	-	-	-	-	-	-	(7,000)	7,000	-
Total comprehensive income for the year	-	-	-	-	(29,219)	8,332	820,589	(6,000)	793,702
At 31 December 2010	1,941,287	1,379,683	38,638	1,100,000	36,292	(20,702)	1,008,486	395,257	5,878,941

The attached notes on pages 8 to 72 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 2010

	2010 AED'000	2009 AED'000
OPERATING ACTIVITIES		
Profit for the year	820,589	803,345
<i>Adjustments for:</i>		
Depreciation	55,301	51,127
Assets written off	-	1,668
Impairment loss on available-for-sale investments	-	44,023
Gain on disposal of property and equipment	(5)	(27)
Dividend income	(7,897)	(10,621)
Net unrealized gains on investments at fair value through profit or loss – held for trading net of forex translation	(14,036)	(11,439)
Realized (gains) / losses on sale of investments	(22,999)	23,222
Net unrealized losses on derivatives	15,881	26,889
Amortization of reclassified investments	883	(2,518)
Directors' remuneration paid	(6,000)	(6,000)
	841,717	919,669
(Increase) / decrease in statutory reserve with the Central Bank	(61,389)	176,084
Decrease in loans and advances and Islamic financing	1,211,835	202,435
Increase in other assets	(219,458)	(12,478)
Increase in customers' deposits and Islamic customers' deposits	1,281,208	2,173,806
Increase / (decrease) in other liabilities	62,044	(19,268)
(Decrease) / increase in due to banks maturing after three months	(147,000)	638
Net cash flow from operating activities	2,968,957	3,440,886
INVESTING ACTIVITIES		
Purchase of investments	(165,871)	(265,810)
Purchase of property and equipment	(95,524)	(153,914)
Dividend income	7,897	10,621
Proceeds from sale of investments	360,496	633,952
Proceeds from sale of property and equipment	636	62
Net cash flow from investing activities	107,634	224,911
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	2,811,870	3,454,020
Cash and cash equivalents at 1 January	2,747,245	(706,775)
Cash and cash equivalents at 31 December	note 26 5,559,115	2,747,245

The attached notes on pages 8 to 72 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 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 on the Dubai Financial Market.

The consolidated financial statements of the Bank for the year ended 31 December 2010 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 guidelines 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 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 2010

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
- Granted land which is valued at the market value on the date of grant.

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 setout below have been applied consistently to all the previous period presented in these consolidated financial statements.

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. The adoption of Basel II Pillar 3 guidelines has impacted the type and amount of disclosures made in these consolidated financial statements, but has no impact on the reported profits or financial position of the Group. 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 2010 are as follows:

- IFRS - 9 Financial Instruments: Effective 1 January 2013;
- IAS - 24 (Revised) - Related Party Disclosures: Effective 1 January 2011;
- IAS - 32 (Amended) - Financial Instruments: Presentation: Effective 1 February 2010;
- IFRIC - 14 (Amended) - Prepayment of Minimum Funding Requirement: Effective 1 January 2011;
- IFRIC - 19 Extinguishing Financial Liabilities with Equity Instruments: Effective 1 July 2010.

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to publish standards, and concluded that they are either not relevant to the Group or their impact is limited to the disclosures and presentation requirement in the financial statements. Except IFRS-9 which is expected to have a pervasive impact on the Group financial statements.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

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 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Subsequent measurement

Financial assets available-for-sale and investments at fair value through profit or 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 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 2010

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 2010

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 2010

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 income statement as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to income statement 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 income statement. 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 income statement, the impairment loss is reversed, with the amount of the reversal recognised in income statement. 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 2010

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 2010

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) Islamic financing

In addition to conventional banking products, the Group offers its customers certain non-interest based banking products, which are approved by Sharia'a Supervisory Board. Islamic Financing consists of the following:

Murabaha

An agreement whereby the Group sells to a customer, commodity or asset (subject asset), which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the subject asset and an agreed profit margin. Income is recognized on an accrual basis adjusted by actual income when received.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Islamic financing (continued)

Ijarah

Ijarah refers to lease of the asset, which the Group (Lessor) constructs or purchases as per customer (Lessee) request based on the promise to lease the asset for a fixed term against certain rent installment. Ijara can end by transferring the ownership of the asset to the lessee in case of Ijara Muntahia Bittamleek.

Islamic financing products are measured at amortized cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing when their recovery is in doubt taking into consideration IFRS requirements. Islamic financing are written off only when all possible courses of action to achieve have proved unsuccessful.

h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for granted land, which is stated at the market value at the date of grant.

Cost includes 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 income statement as incurred.

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

i) 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Customers' deposits

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

k) Islamic customers' deposits

The Islamic window obtains funds by entering into following kinds of agreements:

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudarabah.

Wakala

An agreement between group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortized cost using the effective profit method.

l) 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.

m) 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.

n) 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.

o) 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) 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.

q) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and balances with the Central Bank (excluding statutory reserve), and amounts due from and due to banks with original maturity less than three months.

r) 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.

s) Income from Islamic financing and distributions to depositors

Income from Islamic financing is recognized in the consolidated income statement using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction cost, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Distribution to Depositors (Islamic products) is calculated according to the Group's standard procedures and is approved by the Group's Sharia'a Supervisory Board.

t) 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) 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.

v) Dividend income

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

w) 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.

x) 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.

y) 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.

z) 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

aa) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

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

Impairment losses on loans and advances

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

Held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value 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

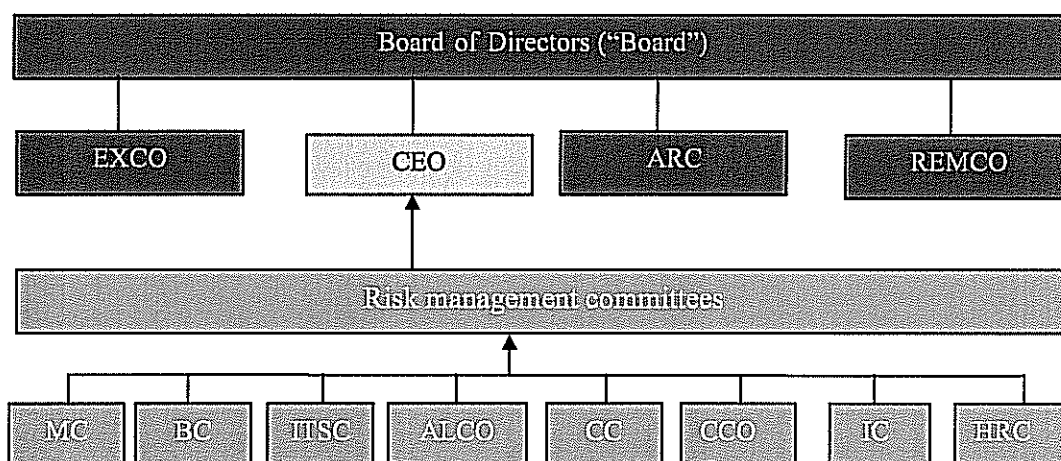
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1 Risk Governance

The Board of Directors (The “Board”) has the overall responsibility for the operations and the financial soundness of the Bank, and ensures that the interest of shareholders, depositors, creditors, employees and other stakeholders, including the banking regulators and supervisors, are met. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group’s risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. Additionally, it is responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

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



Board Committees

(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 Board non-executive members, Chief Executive Officer (CEO) and Deputy Chief Executive Officer (DCEO).

(b) Audit & Risk Committee (ARC)

The ARC consists of five Board non-executive members and an independent member. The role of the ARC is to assist the Board of Directors in ensuring and maintaining oversight of the Bank’s financial reporting system, internal control and risk management processes, audit functions and legal and regulatory requirements by:

- Overseeing the Group’s financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Monitoring the effectiveness and integrity of the Risk Management Framework and review reports on risk management;
- Evaluating the adequacy and effectiveness of the Bank’s procedures and systems for ensuring compliance with legal and regulatory requirements and internal policies;
- Managing the relationship with the Group’s external auditors;

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.1 Risk Governance (continued)

Board Committees (continued)

(b) Audit & Risk Committee (ARC) (continued)

- Supervising external and internal auditors, ensuring the comprehensiveness of their scope of work, ensuring coordination between various external auditing bodies, reviewing the periodicity and scope of internal audit, and the approval of their working plans;
- Reviewing the notes mentioned in the reports of the Central Bank, Financial Audit Department of Government of Dubai , internal and external audit, and following up relevant measures taken to address weaknesses in control procedures, and non-compliance with laws & regulations, and ensure that management has instituted appropriate remedial measures;
- Submitting recommendations to the Board concerning the nomination, appointment, termination and remuneration of the external auditor and its election by the general assembly, ensuring that the external auditor fulfills the requirements of the supervisory bodies, and that nothing shall impair its independence;
- Ensuring the independence of the internal audit department necessary to carry out its duties;
- Reviewing reports on the internal controls and ensuring the sufficiency and efficiency of the internal control system to avoid any potential conflict of interest, which may arise from the Bank's transactions or contracts or entering into projects with related parties, and to ensure that audit plans cover this.

(c) Remuneration Committee (REMCO)

The Remuneration Committee has been established to provide an efficient mechanism for reviewing the Bank's compensation arrangement for its Management and Staff and making recommendations for the Board's approval on these matters. The Chairman and the Members of the Committee are appointed by the Board from amongst its Directors. The REMCO comprises of three Board non-executive members; the Group's Head of H.R. acts as a Secretary to the Committee.

Its primary objectives and responsibilities that are independently undertaken and assumed on behalf of the Board, that may be amended time to time are as given below but not limited to :

- To ensure that compensation programs are fair in order to attract, retain and motivate its highly professional management and staff and in adherence to the short, medium and long-term objectives of the Bank bearing in mind the risk-taking and market conditions. Additionally, they must oversee the development of new compensation plans and approve the revision of existing plans, as and when required;
- To ensure that remuneration practices are compliant with all laws/rules that are applicable to the banks and that reporting and disclosures pertaining to the same are carried out in a timely manner as regulated by, but not limited to the laws of UAE Central Bank, Dubai Financial Market & Securities and Commodities Authority;
- To facilitate and expedite the implementation of any Board decision pertaining to remuneration;
- To recommend the remuneration and compensation of the senior management;

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.1 Risk Governance (continued)

Board Committees (continued)

(c) *Remuneration Committee (REMCO) (continued)*

- Determine the bonus pool, overall increment pool for staff and prepare a compensation recommendation for presentation to the Board considering certain factors such as Bank's performance and shareholder return, compensation in comparison to peers and rewards given in the past years;
- Recommend proposals for granting and when necessary, exercising Long Term Incentive Programs (LTIPs) and /or share option schemes, where applicable; and
- Review and approve overall HR policies and strategy.

Risk Management Committees

(a) *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 strategy, financial review, policies, marketing, administration 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.

(b) *Business Committee (BC)*

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

(c) *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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.1 Risk Governance (continued)

Risk Management Committees (continued)

(d) 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.

(e) 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 proposals, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2010

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.1 Risk Governance (continued)

Risk Management Committees (continued)

(f) *Compliance Committee (CCO)*

The Compliance Committee primarily ensures the prevention of Money Laundering and combats terrorism financing in adherence and compliance to the relevant regulations set by regulatory authorities, applicable to the Bank by overseeing and monitoring the implementation of the policies and procedures related to compliance and AML. It consists of five executive members whose duties include but are not limited to :

- Assessing and approving reports prepared by Head of Compliance and AML regarding suspicious transactions in staff & customer accounts/credit cards & internal and external fraud cases and subsequently taking appropriate corrective action through investigation, police and court action wherever necessary;
- Reviewing the increased risk customers, like non-residents, free-zones, politically exposed persons (PEPs), and others as defined by our “Know Your Customer (KYC) and Anti-money Laundering (AML) Policies & Procedures”, and give the suitable decision.

(g) *Investment Committee (IC)*

The Investment committee and sub-committee are responsible for overseeing and managing the Bank’s own proprietary investments, in both fixed income and equity securities, in accordance with the investment policy and guidelines.

The committee’s key responsibilities are:

- Approving and amending the policies and guidelines;
- Reviewing and approving Investment Group/Treasury’s proposed investment recommendations;
- Reviewing and evaluating performance of portfolios against benchmarks; and
- Reviewing the portfolio’s continued compliance with regulatory guidelines.

(h) *Human Resources Committee (HRC)*

The purpose of the HR Committee is to set strategy and policy in the following areas:

- **Organization development** in terms of structure, professional ethics, annual business strategy, business focused succession planning.
- **Staffing** in terms of Emiratisation, optimal headcount/manpower distribution, review sourcing process, policies & strategies, review the approved agencies.
- **Training and Development** which ensures the timely conduct of training, approve specialized development programs, review financial budget for training & development and ensure it has been used extensively for this purpose.
- **Performance Management** ensures performance driven work culture, develop managers’ competence and ensure managers agree on the KPI’s and performance reviews.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.1 Risk Governance (continued)

Risk Management Committees (continued)

(h) Human Resources Committee (HRC) (continued)

- **Compensation & Reward Management** supporting the Remuneration Committee, ensure jobs are graded based on the Job Evaluation System, ensure incentive scheme, revision of salary structure, changes in the allowances, benefits & facilities and other rewards reaches employees.
- **Employee Services** includes ensuring that employee grievances are timely resolved, effective implementation of Staff Suggestion scheme, Employee Satisfaction Survey and outstanding performance awards.

5.2 Control Environment

(a) 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.

(b) Internal audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent 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 & Risk Committee or Senior Management.

It is led by the Head of Internal Audit who reports to the Audit & Risk 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.2 Control Environment (continued)

(c) Internal control

Board of Director's and Executive Management are responsible for developing and maintaining the existence of a sound Internal Control System and procedures that meet international standards and fulfilling the requirements of the Group's Management and External Regulatory Bodies and are capable of ensuring the achievement of the following :

- Accuracy and integrity of financial and operational statements issued by the Bank;
- Effectiveness and efficiency of the Bank's operational activities;
- Effectiveness of measures and procedures set to safeguard the Bank's assets and properties; and
- Compatibility with policies pertinent to internal operational procedures as well as laws, legislations and regulations in force.

Management works constantly on monitoring and assessing the efficiency and effectiveness of internal control procedures and their ability to achieve aspired objectives and their furtherance and enhancement.

The Internal Control Department reports to the General Manager of Administration and Finance. The functions and responsibilities of the Internal Control Department include but not limited to :

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

(d) Compliance

The process of monitoring compliance is considered an independent task which aims at ensuring that the Bank and its internal policies are in compliance with all the laws, regulations, instructions, directives, codes of conduct and sound banking standards and practices issued by regulators.

The Board of Directors' takes the necessary measures to further the values of integrity and sound professional conduct within the Bank that is in compliance with the applied laws, regulations, instructions and standards that constitute a primary goal that must be achieved.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.2 Control Environment (continued)

(d) Compliance (continued)

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.

(e) Whistle Blowing

A set of arrangements has been designed to enable employees to confidentially report concerns about any potential violations, enabling the investigation and follow up of such concerns independently and discreetly through the whistle blowing policy. Such arrangements are supervised by the Audit & Risk Committee and in coordination with the Senior Executive Management.

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 & Risk 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 & Risk Committee is

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Introduction and overview (continued)

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 & Risk 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.

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, Islamic financing, amounts due from banks and investment in debt securities. For reporting purpose credit risk on Islamic financing is reported as component of credit risk on loans and advances. 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 fourteen 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 2010

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 and Islamic financing		Due from banks		Debt securities	
	2010	2009	2010	2009	2010	2009
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Carrying amount	27,164,988	28,376,823	2,297,520	1,159,071	1,395,975	1,464,799
Neither past due nor impaired						
Grades 1: best standard asset	1,798,032	2,533,321	2,297,520	1,159,071	1,395,975	1,464,799
Grade 2-9: less than best grade standard asset	21,448,367	24,551,082	-	-	-	-
Grade 10: worst grade standard asset /watch- list loans	1,793,372	754,791	-	-	-	-
Carrying amount	25,039,771	27,839,194	2,297,520	1,159,071	1,395,975	1,464,799
Past due but not impaired						
In Grade 1 to 10						
Less than 30 days	229,133	59,103	-	-	-	-
30 – 60 days	95,304	44,838	-	-	-	-
60 – 90 days	391,634	65,250	-	-	-	-
Over 90 days	1,027,129	338,984	-	-	-	-
Carrying amount	1,743,200	508,175	-	-	-	-
Collective provision for impairment	(424,566)	(329,024)	-	-	-	-
Carrying amount net of collective impairment	26,358,405	28,018,345	2,297,520	1,159,071	1,395,975	1,464,799
Individually impaired and restructured loans (grade 10)	220,296	-	-	-	-	-
Specific provision for impairment	(39,000)	-	-	-	-	-
Carrying amount	181,296	-	-	-	-	-
Individually impaired						
Grade 11: Substandard (a)	16	8,531	-	-	-	-
Grade 12: Substandard (b)	912,528	537,754	-	-	-	-
Grade 13: Doubtful	205,448	33,401	-	-	-	-
Grade 14: Loss	40,709	33,654	-	-	-	-
Gross amount	1,158,701	613,340	-	-	-	-
Interest suspended	(126,824)	(85,095)	-	-	-	-
Specific provision for impairment	(505,067)	(235,695)	-	-	-	-
Carrying amount	526,810	292,550	-	-	-	-
Collectively impaired						
Grade 11: Substandard (a)	193	248	-	-	-	-
Grade 12: Substandard (b)	247,788	121,158	-	-	-	-
Grade 13: Doubtful	9,132	22,630	-	-	-	-
Grade 14: Loss	1,409	9,588	-	-	-	-
Gross amount	258,522	153,624	-	-	-	-
Interest suspended	(31,388)	(31,583)	-	-	-	-
Collective provision for impairment	(128,657)	(56,113)	-	-	-	-
Carrying amount	98,477	65,928	-	-	-	-
Total carrying amount	27,164,988	28,376,823	2,297,520	1,159,071	1,395,975	1,464,799

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Impaired loans and advances, Islamic financing and investment in debt securities

Individually impaired loans and advances, Islamic financing 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 14 grades as set out below. Grades 1 to 9 reflect performing accounts, grade 10 reflects irregular accounts and grades 11 to 14 reflect defaulted / non-performing accounts.

New grades	Old grades	Risk significance
1	Grade 1a	Best grade standard asset
2-5	Grade 1b	Less than best grade standard asset
6-9	Grade 1c	Less than best grade standard asset to better than the worst case
10	Grade 2	Worst grade standard asset / watch-list loans
11	Grade 3a	Substandard "a"- Interest Suspended (Payment of Principal or Interest is in arrears beyond 3 months)
12	Grade 3b	Substandard "b"- Provision Starts (Payment of Principal or Interest is in arrears beyond 3 months)
13	Grade 4	Doubtful of recovery
14	Grade 5	Loss (fully provided for, and written off)

The Group Credit Risk Rating Methodology, which has been internally developed based on actual historical data, is in line with the requirements set out in the Basel II Accord and has a 14- grades frame-work, whereby:

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

The 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 2010

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 2010 renegotiated loans amount to AED 808 million (2009: AED 691 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 component 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:

2010	OVERDUE			Specific provision and interest in suspense AED'000	Collaterals AED'000
	Less than 90 Days AED'000	90 Days & above AED'000	Total AED'000		
Commercial and Business:-					
Agriculture & allied activities	-	417	417	131	-
Mining & quarrying	-	-	-	-	-
Manufacturing	48	23,174	23,222	26,076	-
Construction	2,281	-	2,281	1,781	2,281
Trade	48,545	584,018	632,563	315,816	330,949
Transport & communication	1,806	18,976	20,782	16,412	1,281
Services	27,157	286,516	313,673	157,150	130,398
Business and investment	803	97,890	98,693	65,285	56,032
Total commercial and Business	80,640	1,010,991	1,091,631	582,651	520,941
Banks and financial institutions	-	113	113	39,039	-
Government and public sector entities	-	-	-	-	-
Personal-schematic	5,508	316,781	322,289	186,410	163,607
Others	576	2,614	3,190	22,836	161
Total carrying amount	86,724	1,330,499	1,417,223	830,936	684,709

In addition to the specific provision, the Group holds AED 424.6 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 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

2009	OVERDUE			Specific provision and interest in suspense AED'000	Collaterals AED'000
	Less than 90 Days AED'000	90 Days & above AED'000	Total 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
Business and investment	24,355	61,251	85,606	73,053	11,333
Total commercial and Business	245,283	365,030	610,313	318,033	234,497
Banks and financial institutions	-	-	-	-	-
Government and public sector entities	-	-	-	-	-
Personal-schematic	93,614	60,010	153,624	87,696	51,278
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.

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 2010

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 and Islamic financing		Due from banks		Debt securities	
	← AED'000 →					
	Gross	Net	Gross	Net	Gross	Net
31 December 2010						
11&12: Substandard (a & b)	912,544	526,810	-	-	-	-
Grade 13: Doubtful	205,448	-	-	-	-	-
Grade 14: Loss	40,709	-	-	-	-	-
Total	1,158,701	526,810	-	-	-	-
31 December 2009						
11&12: Substandard (a & b)	546,285	292,550	-	-	-	-
Grade 13:Doubtful	33,401	-	-	-	-	-
Grade 14: Loss	33,654	-	-	-	-	-
Total	613,340	292,550	-	-	-	-

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 debt securities and amounts due from banks, and no such collateral was held at 31 December 2010 or 2009.

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 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Concentration of credit risk by sector for 2010

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity Securities AED'000	Cash, balances with Central bank and other assets AED,000	Total on balance sheet AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
<i>Concentration by sector</i>								
Commercial and Business:-								
Agriculture & allied activities	30,510	-	-	-	-	30,510	5,378	41,838
Mining & quarrying	252,366	-	-	-	-	252,366	191,574	29,782
Manufacturing	1,350,244	-	-	-	-	1,350,244	381,046	455,278
Construction	4,689,067	-	19,742	221	-	4,709,030	491,376	62,346
Trade	7,857,814	-	-	-	-	7,857,814	2,340,594	3,212,955
Transport & communication	492,901	-	-	8,099	-	501,000	112,700	258,839
Services	3,665,329	-	-	90	-	3,665,419	1,623,457	4,254,465
Business and investment	6,198,973	-	-	-	-	6,198,973	1,241,057	379,812
Total commercial and Business	24,537,204	-	19,742	8,410	-	24,565,356	6,387,182	8,695,315
Banks and financial institutions	560,887	2,297,520	390,913	304,498	-	3,553,818	138,142	700,108
Government and public sector entities	668,429	-	985,320	-	4,723,459	6,377,208	125,417	87
Personal-schematic	2,258,558	-	-	-	-	2,258,558	486,846	18,209
Others	395,412	-	-	-	1,515,442	1,910,854	25,159	77,254
Total carrying amount	28,420,490	2,297,520	1,395,975	312,908	6,238,901	38,665,794	7,162,746	9,490,973

Total securities held against loans and advances and Islamic financing are AED 15,294 million, of which AED 9,909 million are legal mortgages.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Concentration of credit risk by sector for 2009

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity Securities AED'000	Cash, balances with Central bank and other assets AED,000	Total on balance sheet AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances 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
Business and investment	6,231,736	-	-	-	-	6,231,736	1,637,583	700,999
Total commercial and Business	23,694,360	-	57,161	17,737	-	23,769,258	8,022,739	8,788,502
Banks and financial institutions	688,502	1,159,071	314,407	414,039	-	2,576,019	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
Others	526,394	-	-	-	1,404,674	1,931,068	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 and Islamic financing 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 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Concentration of credit risk by geographic location:

2010	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity Securities AED'000	Cash, balances with Central bank and other assets AED'000	Total on balance sheet AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
<i>Concentration by location</i>								
UAE	28,186,354	1,629,772	1,290,011	244,018	6,238,901	37,589,056	7,121,119	8,903,502
GCC	234,136	281,081	64,645	67,682	-	647,544	41,627	6,998
Other Arab Countries	-	671	-	-	-	671	-	10,923
Europe	-	347,229	40,495	-	-	387,724	-	389,043
USA	-	34,860	-	1,208	-	36,068	-	30,883
Asia	-	2,083	824	-	-	2,907	-	148,606
Others	-	1,824	-	-	-	1,824	-	1,018
Total carrying amount	28,420,490	2,297,520	1,395,975	312,908	6,238,901	38,665,794	7,162,746	9,490,973

2009

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity Securities AED'000	Cash, balances with Central bank and other assets AED'000	Total on balance sheet AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
<i>Concentration by location</i>								
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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Concentration of credit risk by currency:

2010	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities AED'000	Cash, balances with Central Bank and other assets AED'000	Total on balance sheet AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
<i>Concentration by currency</i>								
AED	26,637,287	18	966,276	221,880	6,050,769	33,876,230	7,121,119	8,900,459
Other currencies	1,783,203	2,297,502	429,699	91,028	188,132	4,789,564	41,627	590,514
Total carrying amount	28,420,490	2,297,520	1,395,975	312,908	6,238,901	38,665,794	7,162,746	9,490,973
2009	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities AED'000	Cash, balances with Central Bank and other assets AED'000	Total on balance sheet AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances 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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

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, 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 unacceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, money market instruments, subordinated debts and capital. The treasury and ALM department 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 2010

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 83.9% (2009: 92%). 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 2010 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	5,076,443	5,076,443	-	-	-	-
Due from banks	2,297,520	2,297,520	-	-	-	-
Loans and advances and Islamic financing	27,164,988	8,158,341	1,251,348	1,882,150	9,765,943	6,107,206
Investment securities	1,708,883	312,908	-	18,181	1,182,703	195,091
Property and equipment	616,475	28	246	4,597	208,985	402,619
Other assets	1,646,939	730,690	337,378	578,446	425	-
Total assets	38,511,248	16,575,930	1,588,972	2,483,374	11,158,056	6,704,916
Liabilities and equity						
Due to banks	309,273	309,273	-	-	-	-
Customers' deposits and Islamic customers' deposits	29,209,662	18,309,384	4,146,922	4,887,193	24,610	1,841,553
Medium term borrowing	1,469,200	-	-	1,469,200	-	-
Other liabilities	1,644,172	727,923	337,378	578,446	425	-
Equity	5,878,941	-	395,257	-	-	5,483,684
Total liabilities and equity	38,511,248	19,346,580	4,879,557	6,934,839	25,035	7,325,237

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Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

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 and Islamic financing	28,376,823	7,808,724	1,661,001	2,438,376	10,044,706	6,424,016
Investment securities	1,896,575	431,776	-	148,993	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	13,657,394	1,934,655	2,836,782	11,292,782	7,061,439
Liabilities and equity						
Due to banks	766,568	561,920	57,648	147,000	-	-
Customers' deposits and Islamic 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	-	270,721	-	-	5,079,239
Total liabilities and equity	36,783,052	18,203,802	5,058,772	5,065,740	1,518,461	6,936,277

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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

The table below shows the 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
2010	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Contingent liabilities	8,390,017	844,403	1,219,826	2,455,811	3,298,588	571,389
Credit commitments	7,162,746	393,951	787,902	1,181,853	4,799,040	-
Total	15,552,763	1,238,354	2,007,728	3,637,664	8,097,628	571,389
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	493,553	987,106	1,480,659	6,012,375	-
Total	18,955,886	2,150,842	2,431,718	4,515,336	8,759,686	1,098,304

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

6. 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 2010

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 monitors 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 net interest income and regulatory capital:

	2010		2009	
	Net interest income		Net interest income	
	50 b.p. AED'000	100 b.p. AED'000	50 b.p. AED'000	100 b.p. AED'000
Upward Shift	39,531	79,062	15,247	30,495
Downward Shift.	(30,727)	(61,454)	15,805	31,610

	2010		2009	
	Regulatory capital		Regulatory capital	
	50 b.p. AED'000	100 b.p. AED'000	50 b.p. AED'000	100 b.p. AED'000
Upward Shift	(7,644)	(15,289)	(8,464)	(16,928)
Downward Shift.	7,644	15,289	8,464	16,928

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

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 2010	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	2,076,443	3,000,000	-	-	-	5,076,443
Due from banks	-	2,297,520	-	-	-	2,297,520
Loans and advances and Islamic financing	-	25,856,963	1,381,120	456,720	725,687	28,420,490
Provisions	(1,255,502)	-	-	-	-	(1,255,502)
Investment securities	312,908	587,680	423,520	-	384,775	1,708,883
Property and equipment	616,475	-	-	-	-	616,475
Other assets	1,646,939	-	-	-	-	1,646,939
Total assets	3,397,263	31,742,163	1,804,640	456,720	1,110,462	38,511,248
Liabilities and equity						
Due to banks	-	309,273	-	-	-	309,273
Customers' deposits and Islamic customers' deposits	8,391,057	15,966,686	1,567,171	3,265,753	18,995	29,209,662
Medium term borrowing	-	1,469,200	-	-	-	1,469,200
Other liabilities	1,644,172	-	-	-	-	1,644,172
Equity	5,878,941	-	-	-	-	5,878,941
Total liabilities and equity	15,914,170	17,745,159	1,567,171	3,265,753	18,995	38,511,248
Interest rate sensitivity gap	(12,516,907)	13,997,004	237,469	(2,809,033)	1,091,467	-
Cumulative interest rate sensitivity gap	(12,516,907)	1,480,097	1,717,566	(1,091,467)	-	-
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	2,351,928	1,300,000	-	-	-	3,651,928
Due from banks	-	1,159,071	-	-	-	1,159,071
Loans and advances and Islamic financing	-	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	3,744,849	27,228,210	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 and Islamic 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	(10,398,728)	9,583,812	611,328	(2,162,644)	2,366,232	-
Cumulative interest rate sensitivity gap	(10,398,728)	(814,916)	(203,588)	(2,366,232)	-	-

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risks (continued)

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).

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 AED'000	Net exposure	
			2010	2009
US Dollar	(1,055,491)	1,030,499	(24,992)	(18,436)
Great Britain Pound	(5,936)	5,956	20	(382)
Japanese Yen	7,486	(7,404)	82	22
Euro	(1,413)	2,093	680	1,006
Others	932	3,854	4,786	8,821

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

	2010 AED'000	2009 AED'000
Equity position risk	2,637	3,582
Foreign currency risk	759	583
	<u>3,396</u>	<u>4,165</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Equity risk

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

Analysis of equity portfolio:

	2010 AED'000	2009 AED'000
Publicly traded (quoted):		
Equity	224,266	309,173
Privately held (unquoted):		
Funds of funds investments	88,642	122,603
Total	312,908	431,776

Analysis of gains or (losses) on equity investments:

	2010 AED'000	2009 AED'000
Realized gains / (losses) on sale	19,190	(21,905)
Unrealized gains in P/L	15,432	9,776
Impairment losses	-	(34,842)
Unrealized (losses) / gains in OCI	(89,890)	51,090

The revaluation reserve on equity portfolio as at 31 December 2010 amounting to AED 100.597 million (2009: AED 190.487 million) was considered as Tier II capital.

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

	2010				2009			
	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	-	25,714	2,396	28,110	-	32,423	3,172	35,595
Funds of Funds investment	3,900	6,616	241	10,757	3,174	10,107	410	13,691
Total	3,900	32,330	2,637	38,867	3,174	42,530	3,582	49,286

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

h) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology, 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, innovativeness and creativity.

The primary responsibility for the overseeing the establishment of sound operational risk management framework and monitoring the operational risk profile of the Group vests with the Senior Management of the Group, 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 to eliminate scenarios involving any conflict of interest;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures pertaining to all activities of the bank;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action to avoid its future recurrence;
- Development of contingency plans to ensure continuity of business under all circumstances;
- Training and professional development of employees at all levels so as to increase their awareness of the subject;
- Ethical and business standards (through the Group's approved and functional Code of Ethics);
- Risk mitigation, including insurance wherever this is effective; and
- Whistle Blowing and Incident Reporting Policies are channels available to all staff for reporting of any loss events or other wrongdoings.

The Group has 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. The initiative for automation of this process was launched during last quarter of current year and a full fledge system is expected to be in place by 1st quarter of 2011. 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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

h) Operational risks (continued)

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.

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 2009, the Central Bank has advised that the capital adequacy ratio should not be less than 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 2010

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 2010 AED'000	31 December 2009 AED'000	31 December 2010 AED'000	31 December 2009 AED'000
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	1,008,486	583,154	1,008,486	583,154
Tier 1 Capital	5,429,456	5,004,124	5,429,456	5,004,124
Upper tier 2 capital				
Fair value reserve	7,015	16,415	7,015	16,415
Collective provisions	424,566	329,024	-	-
	431,581	345,439	7,015	16,415
Lower tier 2 capital				
Subordinated term loans	1,841,526	1,841,526	1,841,526	1,841,526
Tier 2 capital	2,273,107	2,186,965	1,848,541	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)	7,692,563	7,181,089	7,267,997	6,852,065
Risk weighted assets (RWA) Pillar 1				
On-balance sheet	-	-	26,014,975	27,027,656
Off-balance sheet	-	-	5,365,122	5,796,691
Credit risk	31,477,290	32,461,191	-	-
Market risk	28,305	39,848	-	-
Operation risk	3,334,546	3,070,372	-	-
Risk weighted assets (b)	34,840,141	35,571,411	31,380,097	32,824,347
Tier 1 ratio	15.58%	14.06%	17.30%	15.25%
Capital adequacy ratio (Pillar) 1 (c)	22.08%	20.19%	23.16%	20.87%
Pillar 2 capital charge (d)	1.80%	1.18%	-	-
Capital adequacy ratio (c – d)	20.28%	19.01%	23.16%	20.87%

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

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 external credit assessment institutions (ECAIs), 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.

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 ECAIs. 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 2010

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 to a single borrower 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 172,268 thousand (2009: AED 236,796 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 2010

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Capital management (continued)

Capital resources and adequacy (continued)

Risk weights for credit risk (continued)

Asset Classes	On balance Sheet	Off balance sheet Net Exposure After Credit Conversion Factors (CCF)	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure Before CRM	CRM	After CRM	
2010	Gross Outstanding AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on Sovereigns	6,794,681	-	6,794,681	-	6,794,681	40,495
Claims on Non-Central Government Public Sector Entities (PSES)	1,212,300	840	1,213,140	-	1,213,140	730,439
Claims on banks	999,156	354,350	1,353,506	-	1,353,506	432,136
Claims on corporate	14,962,708	5,181,208	20,104,916	3,375,068	16,729,848	16,729,848
Claims included in the regulatory retail portfolio	703,770	93,023	796,793	36,936	759,857	613,352
Claims secured by residential property	1,447,051	-	1,447,051	-	1,447,051	997,418
Claims secured by commercial property	8,273,425	-	8,273,425	-	8,273,425	8,273,425
Past due loans	2,444,352	-	1,652,416	-	1,652,416	2,195,799
Other assets	1,828,351	-	1,828,351	-	1,828,351	1,464,378
Total claims	38,665,794	5,629,421	43,464,279	3,412,004	40,052,275	31,477,290
Settlement risk - from SR 1						-
Total credit risk						31,477,290
2009						
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	14,862,236	5,036,494	19,898,730	1,930,356	17,968,374	17,987,586
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	1,105,948	-	696,357	4,768	691,589	935,829
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

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

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 1,259,435 thousand (2009: AED 836,391 thousand) rated exposure.

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

	2010		2009	
	Exposure AED'000	Risk weighted assets AED'000	Exposure AED'000	Risk weighted assets AED'000
Gross exposure prior to CRM	43,464,279	34,889,294	42,777,030	34,428,391
Less: Eligible financial collateral	<u>3,412,004</u>	<u>3,412,004</u>	<u>1,967,200</u>	<u>1,967,200</u>
Net exposure after CRM	<u>40,052,275</u>	<u>31,477,290</u>	<u>40,809,830</u>	<u>32,461,191</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 2010

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	Amortized Cost		Available- For-sale at fair value	Other amortized cost	Total carrying amount
		Held-to- maturity	Loans and Advances			
	← AED'000 →					
2010						
Cash and balances with central bank	-	-	-	-	5,076,443	5,076,443
Due from banks	-	-	-	-	2,297,520	2,297,520
Loans and advances and Islamic financing	-	-	27,164,988	-	-	27,164,988
Investment securities	10,989	934,908	-	762,986	-	1,708,883
Other assets	3,771	-	-	-	1,643,168	1,646,939
	<u>14,760</u>	<u>934,908</u>	<u>27,164,988</u>	<u>762,986</u>	<u>9,017,131</u>	<u>37,894,773</u>
Due to banks	-	-	-	-	309,273	309,273
Customers' deposits and Islamic customers' deposits	-	-	-	-	29,209,662	29,209,662
Medium term borrowing	-	-	-	-	1,469,200	1,469,200
Other liabilities	24,848	-	-	-	1,565,333	1,590,181
	<u>24,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,553,468</u>	<u>32,578,316</u>
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 and Islamic financing	-	-	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 and Islamic 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>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

7. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

7.2 Fair value measurement – Fair value hierarchy:

2010	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments			
Equity	224,266	-	-
Fund of funds	88,642	-	-
Fixed and floating rate securities	461,067	-	-
Forward foreign exchange contracts and other derivatives	-	375	-
Interest rate swaps	-	(20,702)	-
2009			
Investments			
Equity	309,173	-	-
Fund of funds	122,603	-	-
Fixed and floating rate securities	398,656	-	-
Forward foreign exchange contracts and other derivatives	-	14,010	-
Interest rate swaps	-	(27,538)	-

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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

8. CASH AND BALANCES WITH CENTRAL BANK

	2010 AED'000	2009 AED'000
Cash on hand	352,984	486,738
Balances with Central Bank		
Deposits and other balances	217,884	421,004
Statutory reserves	1,505,575	1,444,186
Negotiable certificates of deposit	3,000,000	1,300,000
	<u>5,076,443</u>	<u>3,651,928</u>
Within UAE	<u>5,076,443</u>	<u>3,651,928</u>

9. DUE FROM BANKS

	2010 AED'000	2009 AED'000
Current and demand deposits	133,742	98,006
Placements	<u>2,163,778</u>	<u>1,061,065</u>
	<u>2,297,520</u>	<u>1,159,071</u>

Due from banks include current and demand deposits of AED 133.7 million (2009: AED 96.7 million) and 534 million placements (2009: nil) with banks outside UAE.

10. LOANS AND ADVANCES AND ISLAMIC FINANCING

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

	2010 AED'000	2009 AED'000
Loans and advances		
Overdrafts	7,399,961	7,521,229
Loans	19,043,020	19,739,688
Advances against letters of credit and trust receipts	836,790	790,511
Bills discounted	<u>773,643</u>	<u>1,021,214</u>
Gross loans and advances	<u>28,053,414</u>	<u>29,072,642</u>
Islamic financing		
Murabaha	213,563	41,195
Ijara	142,825	496
Others	<u>10,688</u>	<u>-</u>
Gross Islamic financing	<u>367,076</u>	<u>41,691</u>
Gross loans and advances and Islamic financing	<u>28,420,490</u>	<u>29,114,333</u>
Less: provisions for impairment losses on loans and advances	(1,255,281)	(737,301)
Less: provisions for impairment losses on Islamic financing	(221)	(209)
Net loans and advances and Islamic financing	<u>27,164,988</u>	<u>28,376,823</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

10. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)

The movements in provisions for impairment losses are as follows:

	2010 AED'000	2009 AED'000
Balance at 1 January	737,510	326,916
Amounts written off during the year	(99,274)	(17,817)
Charge for the year as specific	458,911	178,973
Charge for the year as collective	95,542	232,135
Interest not recognized	90,815	43,154
Recoveries	(28,002)	(25,851)
	<u>1,255,502</u>	<u>737,510</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

11. INVESTMENT SECURITIES

	Domestic AED'000	Regional AED'000	International AED'000	Total AED'000
2010				
Held for trading				
Equities	8,776	-	1,208	9,984
Fund of funds	-	1,005	-	1,005
Available-for-sale				
Equities	214,282	-	-	214,282
Fund of funds	20,960	66,677	-	87,637
Fixed rate securities				
- Government	69,420	-	40,495	109,915
- Others	103,313	-	824	104,137
Floating rate non government securities	182,370	64,645	-	247,015
Held-to-maturity				
Fixed rate government securities	170,723	-	-	170,723
Floating rate securities				
- Government	704,682	-	-	704,682
- others	59,503	-	-	59,503
Total investment securities	1,534,029	132,327	42,527	1,708,883
	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	-	19,931	91,196
Floating rate non government securities	159,896	57,300	-	217,196
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	144,936	63,181	1,896,575

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

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

In 2009, the Group had booked an impairment loss that aggregates to AED 44 million on available for sale investments, due to the decline in the market values. However in 2010 Nil impairment loss has been booked.

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:

	2010 AED'000	2009 AED'000
After reclassification		
Unrealised fair value loss recognized in statement of other comprehensive income	(1,800)	(600)

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

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 2010	449,427	24,904	212,916	172,554	859,801
Additions during the year	1,105	6,178	17,787	70,454	95,524
Transfer from capital work in progress	122,823	-	13,093	(135,916)	-
Disposals	(201)	(141)	(9,221)	-	(9,563)
At 31 December 2010	<u>573,154</u>	<u>30,941</u>	<u>234,575</u>	<u>107,092</u>	<u>945,762</u>
Depreciation					
At 1 January 2010	129,668	11,927	141,323	-	282,918
Charge for the year	18,906	4,673	31,722	-	55,301
On disposals	-	-	(8,932)	-	(8,932)
At 31 December 2010	<u>148,574</u>	<u>16,600</u>	<u>164,113</u>	<u>-</u>	<u>329,287</u>
Net book values					
At 31 December 2010	<u>424,580</u>	<u>14,341</u>	<u>70,462</u>	<u>107,092</u>	<u>616,475</u>

	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)
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 includes the market value of a plot of land granted 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 2010

13. OTHER ASSETS

	2010 AED'000	2009 AED'000
Interest receivable	482,657	269,838
Accounts receivable and prepayments	59,555	52,462
Customer's indebtedness for acceptances	1,100,956	780,719
Positive fair value of derivatives (note 28)	3,771	18,299
Accounts receivable from brokerage customers	-	454
	<u>1,646,939</u>	<u>1,121,772</u>

14. DUE TO BANKS

	2010 AED'000	2009 AED'000
Current and demand deposits	211,627	198,920
Term loans and deposits	97,646	567,648
	<u>309,273</u>	<u>766,568</u>

15. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS

Customers' deposits	2010 AED'000	2009 AED'000
Current and demand accounts	8,695,147	8,237,860
Savings accounts	1,078,228	1,153,938
Time deposits	16,293,353	17,520,295
	<u>26,066,728</u>	<u>26,912,093</u>

Islamic customers' deposits	2010 AED'000	2009 AED'000
Current and demand accounts	283,083	53,229
Mudaraba saving	66,867	25,060
Investment deposits and Wakala	2,792,984	938,072
	<u>3,142,934</u>	<u>1,016,361</u>
Total customers' deposits and Islamic customers' deposits	<u>29,209,662</u>	<u>27,928,454</u>

By sector:	2010 AED'000	2009 AED'000
Government	2,789,683	3,122,997
Corporate	20,122,272	18,770,450
Consumer	6,297,707	6,035,007
	<u>29,209,662</u>	<u>27,928,454</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

15. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS (CONTINUED)

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.

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

	2010 AED'000	2009 AED'000
Interest payable	172,162	151,705
Employees' terminal benefits	53,991	55,793
Accounts payable and unearned fee income	270,213	216,171
Negative fair value of derivatives (note 28)	24,848	31,827
Liabilities under acceptances	1,100,956	780,719
Accounts payable to brokerage customers	22,002	32,655
	<u>1,644,172</u>	<u>1,268,870</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

18. EQUITY

Share capital

The issued and fully paid up ordinary share capital as at 31 December 2010 comprised 1,941,287,596 ordinary shares of AED 1 each (2009: 1,764,806,906 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 granted land at the date of grant 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 to 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 instruments

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

Proposed distributions

The Board of Directors has proposed the following distributions for approval by the Annual General Meeting of the shareholders to be held on 16th March 2011.

i) Proposed bonus issue

No bonus issue for 2010 (2009: 10 per cent in the ratio of 1 shares for every 10 shares held) is proposed.

ii) Proposed cash dividend

A cash dividend of 20 per cent (2009: 15%) of the share capital amounting to AED 388,257,000 (2009: AED 264,721,000) is proposed representing a dividend of AED 0.20 per share (2009: 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 7,000,000 (2009: AED 6,000,000) has been treated as an appropriation from equity.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

19. INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2010 AED'000	2009 AED'000
Interest income		
Loans and advances	1,893,079	1,957,579
Negotiable certificates of deposit with the Central Bank	133	1,394
Due from banks	4,299	2,789
Held-to-maturity investments	19,148	38,343
Available-for-sale investments	21,597	19,807
	<u>1,938,256</u>	<u>2,019,912</u>
	2010 AED'000	2009 AED'000
Income from Islamic financing		
Murabaha	7,102	2,502
Ijara	3,300	41
Sukuk held-to-maturity	19,567	15,911
Sukuk available –for-sale	239	-
	<u>30,208</u>	<u>18,454</u>
Total interest income and income from Islamic Financing	<u>1,968,464</u>	<u>2,038,366</u>

20. INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS

	2010 AED'000	2009 AED'000
Interest expense		
Due to banks	3,118	18,186
Customers' deposits	487,483	643,188
Medium term borrowing	16,259	24,380
Derivative financial instruments	20,466	15,236
	<u>527,326</u>	<u>700,990</u>
	2010 AED'000	2009 AED'000
Distribution to Islamic depositors		
Islamic customers' deposits	55,660	19,841
	<u>55,660</u>	<u>19,841</u>
Total interest expense and distribution to Islamic depositors	<u>582,986</u>	<u>720,831</u>

Distribution to Islamic depositors represents the share of income allocated to Islamic depositors of the Group. The allocation and distribution is approved by the Group's Sharia'a Supervisory Board.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

21. NET FEES AND COMMISSION INCOME

	2010 AED'000	2009 AED'000
Lending activities	67,634	77,966
Trade finance activities	136,727	140,570
Operating activities	121,755	102,784
Net cards income and brokerage fees	18,460	26,993
	<u>344,576</u>	<u>348,313</u>

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

	2010 AED'000	2009 AED'000
Net realized (losses) / gains on sale of investments at fair value through profit or loss	(973)	449
Net unrealized gains on investments at fair value through profit or loss	15,432	9,776
	<u>14,459</u>	<u>10,225</u>

23. DIVIDEND INCOME

	2010 AED'000	2009 AED'000
Investments at fair value through profit or loss – held for trading	374	1,338
Available-for-sale investments	7,523	9,283
	<u>7,897</u>	<u>10,621</u>

24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff related expenses of AED 370.4 million (2009: AED 377.9 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 820.589 million (2009: AED 803.345 million), and on the weighted average number of shares in issue totaling 1,941,287,596 (2009: 1,941,287,596).

There was no dilutive effect on earnings per share.

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Notes to the consolidated financial statements (continued)
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26. CASH AND CASH EQUIVALENTS

	2010 AED'000	2009 AED'000
Cash on hand	352,984	486,738
Balances with the Central Bank	217,884	421,004
Negotiable certificates of deposit with the Central Bank	3,000,000	1,300,000
Due from banks with original maturity less than three months	<u>2,297,520</u>	<u>1,159,071</u>
	5,868,388	3,366,813
Due to banks with original maturity less than three months	<u>(309,273)</u>	<u>(619,568)</u>
	<u>5,559,115</u>	<u>2,747,245</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.

	2010 AED'000	2009 AED'000
Contingent liabilities:		
Letters of credit	1,243,029	1,572,648
Guarantees	<u>7,146,988</u>	<u>8,409,545</u>
	8,390,017	9,982,193
Credit commitments:		
Undrawn commitments to extend credit	7,162,746	8,973,693
Total contingent liabilities and commitments	<u>15,552,763</u>	<u>18,955,886</u>

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Notes to the consolidated financial statements (continued)

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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 2010	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:							
Forward foreign exchange contracts and other derivatives	3,771	4,146	1,381,857	1,165,127	-	36,730	180,000
	3,771	4,146	1,381,857	1,165,127	-	36,730	180,000
Held as cash flow hedges:							
Interest rate swaps	-	20,702	954,980	-	918,250	36,730	-
	-	20,702	954,980	-	918,250	36,730	-
Total	3,771	24,848	2,336,837	1,165,127	918,250	73,460	180,000
31 December 2009							
	← AED'000 →						
Held for trading:							
Forward foreign exchange contracts and other derivatives	18,299	2,793	2,047,553	228,089	1,639,464	-	180,000
	18,299	2,793	2,047,553	228,089	1,639,464	-	180,000
Held as cash flow hedges:							
Interest rate swaps	-	29,034	954,980	-	-	954,980	-
	-	29,034	954,980	-	-	954,980	-
Total	18,299	31,827	3,002,533	228,089	1,639,464	954,980	180,000

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Notes to the consolidated financial statements (continued)

for the year ended 31 December 2010

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.
Islamic Banking	Includes Sharia compliant financing, deposits and trade finance products to all sub segments of clients defined under corporate and consumer banking.

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

Geographical

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

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Notes to the consolidated financial statements (continued)
for the year ended 31 December 2010

29. SEGMENTAL REPORTING (CONTINUED)

Segmental analysis for the year ended 31 December 2010 was as follows:

	Corporate banking	Consumer banking	Treasury and investments	Islamic banking	Other operations	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets	24,617,254	2,180,658	6,825,430	2,624,492	2,263,414	38,511,248
Liabilities	20,567,768	5,498,960	1,778,473	3,142,934	1,644,172	32,632,307
Net interest income and net income from Islamic financing	1,139,339	183,671	55,524	6,944	-	1,385,478
Other income	222,871	49,548	133,984	46,585	51,577	504,565
Total operating income	1,362,210	233,219	189,508	53,529	51,577	1,890,043
Allocated cost	276,733	82,773	11,232	26,183	-	396,921
Unallocated cost	-	-	-	-	90,781	90,781
Provisions for impairment losses net of recoveries	430,873	95,578	-	-	-	526,451
Depreciation	7,158	9,687	1,791	901	35,764	55,301
Total expenses	714,764	188,038	13,023	27,084	126,545	1,069,454
Net profit for the year	647,446	45,181	176,485	26,445	(74,968)	820,589

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

	Corporate banking	Consumer banking	Treasury and investments	Islamic banking	Other operations	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets	25,680,597	2,654,535	6,231,033	518,232	1,698,655	36,783,052
Liabilities	21,297,457	5,614,636	2,235,768	1,016,361	1,268,870	31,433,092
Net interest income and net income from Islamic financing	1,070,922	199,926	37,826	8,861	-	1,317,535
Other income	259,329	51,229	82,652	860	56,317	450,387
Total operating income	1,330,251	251,155	120,478	9,721	56,317	1,767,922
Allocated cost	250,015	120,453	13,345	12,727	-	396,540
Unallocated cost	-	-	-	-	87,630	87,630
Provisions for impairment losses net of recoveries	298,758	86,499	44,023	-	-	429,280
Depreciation	6,618	8,956	1,656	833	33,064	51,127
Total expenses	555,391	215,908	59,024	13,560	120,694	964,577
Net profit for the year	774,860	35,247	61,454	(3,839)	(64,377)	803,345

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Notes to the consolidated financial statements (continued) for the year ended 31 December 2010

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 2010 AED'000	31 December 2009 AED'000	31 December 2010 AED'000	31 December 2009 AED'000
Loans and advances				
At 1 January	182,511	160,412	668,690	666,486
Loans issued	11,252	28,448	129,225	223,240
Repayments	(11,183)	(6,349)	(235,470)	(221,036)
Closing balance	182,580	182,511	562,445	668,690
Deposits				
At 1 January	29,640	35,042	159,515	69,504
Received	11,592	492	49,928	97,006
Repaid	(29,116)	(5,894)	(124,333)	(6,995)
Closing balance	12,116	29,640	85,110	159,515
Interest income	9,082	9,327	13,121	37,194
Interest expense	728	1,085	446	1,824

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 (2009: AED NIL)

The loans issued to directors are repayable monthly over a maximum period of 5 years (2009: 5 years) and carry interest at rates comparable to third party loans. These loans are unsecured (2009: unsecured).

	2010 AED'000	2009 AED'000
Key management compensation		
Salaries and other short-term benefits	13,657	14,093
Post retirement benefits	473	587

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.