

COMMERCIAL BANK OF DUBAI PSC

CONSOLIDATED FINANCIAL STATEMENTS

30 September 2011



Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
For the nine-month period ended 30 September 2011

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

**To the Shareholders
Commercial Bank of Dubai PSC**

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Commercial Bank of Dubai PSC ("the Bank") and its subsidiary CBD Financial Services LLC (collectively referred to as "the Group") as at 30 September 2011, the condensed consolidated interim statements of comprehensive income (comprising a condensed consolidated interim statement of comprehensive income and a separate condensed consolidated interim income statement), changes in equity and cash flows for the nine-month period then ended (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 September 2011 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG
Vijendranath Malhotra
Registration No: 48 B

16 OCT 2011

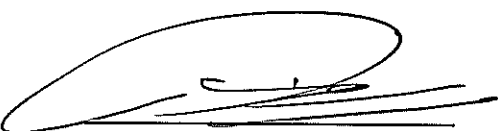
Commercial Bank of Dubai PSC

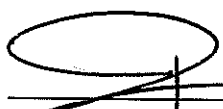
Condensed consolidated interim statement of financial position

As at 30 September 2011

	Note	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited	30 September 2010 AED'000 Reviewed
ASSETS				
Cash and balances with Central Bank		5,450,051	5,076,443	4,052,826
Due from banks	4	1,677,170	2,297,520	1,789,230
Loans and advances and Islamic financing	5	26,298,684	27,164,988	27,786,287
Investment securities	6	1,842,121	1,708,883	1,784,812
Property and equipment		616,875	616,475	619,508
Other assets		1,843,459	1,646,939	1,358,831
Total assets		37,728,360	38,511,248	37,391,494
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		284,842	309,273	269,976
Customers' deposits and Islamic customers' deposits	7	27,962,186	29,209,662	28,364,688
Medium term borrowing	8	1,652,850	1,469,200	1,469,200
Other liabilities		1,546,849	1,644,172	1,423,210
Total liabilities		31,446,727	32,632,307	31,527,074
EQUITY				
Share capital	9	1,941,287	1,941,287	1,941,287
Legal reserve		1,379,683	1,379,683	1,379,683
Capital reserve		38,638	38,638	38,638
General reserve		1,100,000	1,100,000	1,100,000
Cumulative changes in fair values of AFS investments		36,377	36,292	71,753
Cumulative changes in fair values of cash flow hedge instruments		-	(20,702)	(20,707)
Proposed cash dividend		-	388,257	-
Proposed directors' remuneration		-	7,000	-
Retained earnings		1,785,648	1,008,486	1,353,766
Total equity		6,281,633	5,878,941	5,864,420
Total liabilities and equity		37,728,360	38,511,248	37,391,494

The condensed consolidated interim financial statements were approved by the Board of Directors on 16th October 2011.


Mr. Saeed Ahmed Ghobash
Chairman


Mr. Peter Baltussen
Chief Executive Officer

The attached notes on pages 7 to 24 form part of these condensed consolidated interim financial statements.
The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Condensed consolidated interim income statement

For the nine-month period ended 30 September 2011

		Nine-month period ended		Three-month period ended	
		30	30	30	30
	Note	September 2011	September 2010	September 2011	September 2010
		AED '000 Reviewed	AED '000 Reviewed	AED '000 Reviewed	AED '000 Reviewed
Interest income and income from Islamic financing		1,337,210	1,482,898	430,287	502,427
Interest expense and distributions on Islamic customer deposits		(330,099)	(434,578)	(95,860)	(149,380)
Net interest income and net income from Islamic financing		1,007,111	1,048,320	334,427	353,047
Net fees and commission income		264,489	257,803	83,836	82,919
Net gains from foreign exchange and derivatives		80,906	62,060	27,428	20,963
Net gains from investments at fair value through profit or loss-held for trading		(882)	13,724	(407)	(105)
Net gains from sale of available-for-sale investments		9,953	3,458	7,827	506
Other investments income including dividends		9,710	7,256	(58)	(245)
Other income		23,779	17,720	9,002	10,086
Total operating income		1,395,066	1,410,341	462,055	467,171
Impairment allowances on loans and advances and Islamic financing	5	(227,306)	(258,505)	(73,677)	(79,044)
Recoveries	5	30,823	23,252	9,303	5,870
Total net income		1,198,583	1,175,088	397,681	393,997
General and administrative expenses		(377,803)	(364,259)	(129,615)	(122,243)
Depreciation and amortization		(43,618)	(40,217)	(14,136)	(14,069)
Total operating expenses		(421,421)	(404,476)	(143,751)	(136,312)
Net Profit for the period		777,162	770,612	253,930	257,685
Basic and diluted earnings per share	10	AED 0.40	AED 0.40	AED 0.13	AED 0.13

The attached notes on pages 7 to 24 form part of these condensed consolidated interim financial statements.

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

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of comprehensive income

For the nine-month period ended 30 September 2011

	Nine-month period ended		Three-month period ended	
	30 September 2011 AED'000 Reviewed	30 September 2010 AED'000 Reviewed	30 September 2011 AED'000 Reviewed	30 September 2010 AED'000 Reviewed
Net profit for the period	777,162	770,612	253,930	257,685
Other comprehensive income:				
Changes in fair value of effective portion of cash flow hedge	20,702	8,330	5,933	5,509
Changes in available-for-sale investments:				
Realised gains on sale of available-for-sale investments	(9,953)	(3,458)	(7,827)	(506)
Amortisation of reclassified investments	14,235	18,605	4,761	4,639
Revaluation of available-for-sale investments	(4,197)	(8,908)	(22,405)	28,875
Net change in available-for-sale investments	85	6,239	(25,471)	33,008
Directors' remuneration	(7,000)	(6,000)	-	-
Other comprehensive income for the period	13,787	8,569	(19,538)	38,517
Total comprehensive income for the period	790,949	779,181	234,392	296,202

The attached notes on pages 7 to 24 form part of these condensed consolidated interim financial statements.

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Commercial Bank of Dubai PSC

Condensed consolidated interim statement of changes in equity

For the nine-month period ended 30 September 2011

	Share capital AED'000	Legal reserve AED'000	Capital reserve AED'000	General reserve AED'000	Cumulative changes in fair values of AFS investments AED'000	Cumulative changes in fair values of hedge instruments AED'000	Retained earnings AED'000	Proposed distributions AED'000	Total AED'000
At 1 January 2010	1,764,806	1,379,683	38,638	1,100,000	65,514	(29,037)	583,154	447,202	5,349,960
Cash dividend paid (15%)	-	-	-	-	-	-	-	(264,721)	(264,721)
Bonus shares issued (10%)	176,481	-	-	-	-	-	-	(176,481)	-
Total comprehensive income for the period	-	-	-	-	6,239	8,330	770,612	(6,000)	779,181
At 30 September 2010 (Reviewed)	1,941,287	1,379,683	38,638	1,100,000	71,753	(20,707)	1,353,766	-	5,864,420
At 1 January 2011	1,941,287	1,379,683	38,638	1,100,000	36,292	(20,702)	1,008,486	395,257	5,878,941
Cash dividend paid (20%)	-	-	-	-	-	-	-	(388,257)	(388,257)
Total comprehensive income for the period	-	-	-	-	85	20,702	777,162	(7,000)	790,949
At 30 September 2011 (Reviewed)	1,941,287	1,379,683	38,638	1,100,000	36,377	-	1,785,648	-	6,281,633

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Commercial Bank of Dubai PSC

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As at 30 September 2011

	Note	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited	30 September 2010 AED'000 Reviewed
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Total liabilities		31,446,727	32,632,307	31,527,074
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Condensed consolidated interim income statement

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	Note	September 2011	September 2010	September 2011	September 2010
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Other income		23,779	17,720	9,002	10,086
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Recoveries	5	30,823	23,252	9,303	5,870
Total net income		1,198,583	1,175,088	397,681	393,997
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Other comprehensive income:				
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Changes in available-for-sale investments:				
Realised gains on sale of available-for-sale investments	(9,953)	(3,458)	(7,827)	(506)
Amortisation of reclassified investments	14,235	18,605	4,761	4,639
Revaluation of available-for-sale investments	(4,197)	(8,908)	(22,405)	28,875
Net change in available-for-sale investments	85	6,239	(25,471)	33,008
Directors' remuneration	(7,000)	(6,000)	-	-
Other comprehensive income for the period	13,787	8,569	(19,538)	38,517
Total comprehensive income for the period	790,949	779,181	234,392	296,202

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Commercial Bank of Dubai PSC

Condensed consolidated interim statement of changes in equity

For the nine-month period ended 30 September 2011

	Share capital AED'000	Legal reserve AED'000	Capital reserve AED'000	General reserve AED'000	Cumulative changes in fair values of AFS investments AED'000	Cumulative changes in fair values of hedge instruments AED'000	Retained earnings AED'000	Proposed distributions AED'000	Total AED'000
At 1 January 2010	1,764,806	1,379,683	38,638	1,100,000	65,514	(29,037)	583,154	447,202	5,349,960
Cash dividend paid (15%)	-	-	-	-	-	-	-	-	-
Bonus shares issued (10%)	176,481	-	-	-	-	-	-	(264,721)	(264,721)
Total comprehensive income for the period	-	-	-	-	6,239	8,330	770,612	(6,000)	779,181
At 30 September 2010 (Reviewed)	1,941,287	1,379,683	38,638	1,100,000	71,753	(20,707)	1,353,766	-	5,864,420
At 1 January 2011	1,941,287	1,379,683	38,638	1,100,000	36,292	(20,702)	1,008,486	395,257	5,878,941
Cash dividend paid (20%)	-	-	-	-	-	-	-	(388,257)	(388,257)
Total comprehensive income for the period	-	-	-	-	85	20,702	777,162	(7,000)	790,949
At 30 September 2011 (Reviewed)	1,941,287	1,379,683	38,638	1,100,000	36,377	-	1,785,648	-	6,281,633

The attached notes on pages 7 to 24 form part of these condensed consolidated interim financial statements.
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Commercial Bank of Dubai PSC

Condensed consolidated interim statement of cash flows

For the nine-month period ended 30 September 2011

	30 September 2011 AED'000 Reviewed	30 September 2010 AED'000 Reviewed
OPERATING ACTIVITIES	<i>Note</i>	
Profit for the period	777,162	770,612
Adjustments for:		
Depreciation and amortization	43,618	40,217
Gain on disposal of property and equipment	(30)	(4)
Dividend net of investment losses	(9,710)	(7,256)
Net unrealised losses / (gains) on investments at fair value through profit or loss - held for trading net of forex translation	528	(13,483)
Realised gains on sale of investments	(9,715)	(2,300)
Net unrealized (income) / loss on derivatives	(390)	16,017
Directors' remuneration paid	(7,000)	(6,000)
Increase in statutory reserve with the Central Bank	794,463	797,803
Decrease in loans and advances and Islamic financing	(151,478)	(63,745)
Increase in other assets	866,304	590,536
(Decrease) / increase in customers' deposits and Islamic customers' deposits	(202,904)	(123,475)
(Decrease) / increase in other liabilities	(1,247,476)	436,234
Increase / (decrease) in due to banks with original maturity of more than three months	(70,638)	33,068
Net cash flows from operating activities	36,730	(147,000)
INVESTING ACTIVITIES		
Purchase of investments	(288,991)	(151,902)
Purchase of property and equipment	(44,318)	(83,460)
Dividend income	10,070	7,896
Proceeds from sale of investments	165,455	285,048
Proceeds from sale of property and equipment	330	622
Net cash flows (used in) / from investing activities	(157,454)	58,204
FINANCING ACTIVITIES		
Increase in medium term borrowing	183,650	-
Dividends paid	(388,257)	(264,721)
Net cash flows used in financing activities	(204,607)	(264,721)
Net (decrease) / increase in cash and cash equivalents	(337,060)	1,316,904
Cash and cash equivalents at 1 January	5,559,115	2,747,245
Cash and cash equivalents at the end of the period	<i>11</i> 5,222,055	4,064,149

The attached notes on pages 7 to 24 form part of these condensed consolidated interim financial statements.

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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2011

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 condensed consolidated interim financial statements of the Bank For the nine-month period ended 30 September 2011 comprise the Bank and its subsidiary "CBD Financial Services LLC" (together referred to as "the Group"). The subsidiary was incorporated on 9 March 2005 in Dubai, United Arab Emirates and is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) and commenced its operations from 9 October 2005. The Bank effectively holds 100% interest in its subsidiary. The Bank's principal activity is commercial banking while that of its subsidiary is to act as a broker for shares and bonds.

The registered address of the Group is Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

2. BASIS OF PREPARATION

a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 Interim Financial Reporting. These condensed consolidated interim financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2010.

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended 31 December 2010.

b) Basis of measurement

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

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value; and
- Granted land which is valued at the market value on the date of grant.

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

The Group has consistently applied the accounting policies and methods of computation used for the preparation of last published annual consolidated financial statements for the year ended 31 December 2010.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2011

2. BASIS OF PREPARATION (CONTINUED)

b) Basis of measurement (continued)

The Group has adopted IAS 24 'Related Party Disclosures' (Revised) which became applicable for annual periods beginning on or after 1 January 2011, in the preparation of these condensed consolidated interim financial statements. This new and revised IAS affects the presentation and disclosure of these condensed consolidated interim financial statements and do not affect the Group's profit or loss or equity.

IAS 24 amends the definition of a related party and modifies certain related party disclosure requirements for government related entities, as 20% of the Group is owned by Investment Corporation of Dubai. The management has assessed the impact of this new standard and believes that these changes have no significant affect on the Group's condensed consolidated interim financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Transactions eliminated on consolidation

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

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.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Classification (continued)

- *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.

Subsequent measurement

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

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

Gains and losses on subsequent measurement

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

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

Fair value measurement principles

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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Fair value measurement principles (continued)

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 techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instrument that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The fair values of the Group's investment in funds are based on the net asset value obtained from the fund managers with whom the funds are placed.

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

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

Identification and measurement of impairment

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

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

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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements For the nine-month period ended 30 September 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Identification and measurement of impairment (continued)

Individually assessed loans

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

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

Impairment losses are recognized in statement of income 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 statement of income.

Collectively assessed loans

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

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

Incurred but not yet identified impairment

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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Identification and measurement of impairment (continued)

Collectively assessed loans (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 statement of income as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to statement of income 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 statement of income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements For the nine-month period ended 30 September 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Initial and subsequent measurement

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

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

Gains and losses on subsequent measurement

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

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 assesses the effectiveness of the hedging relationship on an ongoing basis.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements For the nine-month period ended 30 September 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Hedging instruments (continued)

Hedge effectiveness testing

The hedge is regarded as highly effective if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or cash flows of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge are within a range of 80 to 125 percent.

In case of a cash flow hedge, prospective hedge effectiveness is assessed by matching the critical terms of hedging instruments and hedged items.

Fair value hedges

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

Cash flow hedges

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

Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income remains in equity other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in 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) Risk Governance and Financial Risk Management

The Group's Risk Governance and Financial Risk Management objectives, policies and procedures are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2010.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the nine-month period ended 30 September 2011

4. DUE FROM BANKS

	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited
Current and demand deposits	41,276	133,742
Placements	1,635,894	2,163,778
	<u>1,677,170</u>	<u>2,297,520</u>

Due from banks include current and demand deposits of AED 41.17 million (31 December 2010: AED 133.74 million) and AED 110.19 million (31 December 2010: AED 534 million) placements with banks outside UAE.

5. LOANS AND ADVANCES AND ISLAMIC FINANCING

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

	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited
Loans and advances		
Overdrafts	6,450,648	7,399,961
Loans	19,379,737	19,043,020
Advances against letters of credit and trust receipts	743,886	836,790
Bills discounted	785,136	773,643
Gross loans and advances	<u>27,359,407</u>	<u>28,053,414</u>
Islamic financing		
Murabaha	215,399	213,563
Ijara	235,699	142,825
Others	21,752	10,688
Gross Islamic financing	<u>472,850</u>	<u>367,076</u>
Gross loans and advances and Islamic financing	<u>27,832,257</u>	<u>28,420,490</u>
Less: provision for impairment losses on loans and advances	(1,531,616)	(1,255,281)
Less: provision for impairment losses on Islamic financing	(1,957)	(221)
Net loans and advances and Islamic financing	<u>26,298,684</u>	<u>27,164,988</u>

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the nine-month period ended 30 September 2011

5. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)

	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited
Analysis by sector		
Commercial and business:-		
Agriculture & allied activities	32,292	30,510
Mining & quarrying	265,106	252,366
Manufacturing	1,331,690	1,350,244
Construction & real estate	4,605,062	4,689,067
Trade	7,508,743	7,857,814
Transport & communication	323,866	492,901
Services	3,683,186	3,665,329
Business and investment	5,693,191	6,198,973
Total commercial and business	23,443,136	24,537,204
Banks and financial institutions	582,235	560,887
Government and public sector entities	1,095,134	668,429
Personal – schematic	2,148,501	2,258,558
Others	563,251	395,412
Gross loans and advances and Islamic financing	27,832,257	28,420,490
Less: Provisions for impairment losses	(1,533,573)	(1,255,502)
Net loans and advances and Islamic financing	26,298,684	27,164,988

	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited
The movement in provisions for impairment losses is as follows:		
Balance at 1 January	1,255,502	737,510
Amounts written off during the period/year	(2,761)	(99,274)
Charge for the period / year:		
- specific	221,806	458,911
- collective	5,500	95,542
Interest not recognized	89,715	90,815
Recoveries	(30,823)	(28,002)
Amortization of interest impairment losses	(5,366)	-
	1,533,573	1,255,502

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the nine-month period ended 30 September 2011

6. INVESTMENT SECURITIES

30 September 2011 (Reviewed)	Domestic AED'000	Regional AED'000	International AED'000	Total AED'000
Held for trading				
Fund of funds	-	817	-	817
Fixed rate government securities	14,986	-	-	14,986
Available-for-sale				
Equities	237,267	-	-	237,267
Fund of funds	21,177	84,731	-	105,908
Fixed rate securities				
- Government	182,596	-	37,832	220,428
- Others	84,501	-	-	84,501
Non government floating rate securities	172,867	60,237	-	233,104
Held-to-maturity				
Fixed rate government securities	173,550	-	-	173,550
Floating rate securities				
- Government	715,730	-	-	715,730
- Others	55,830	-	-	55,830
Total investment securities	1,658,504	145,785	37,832	1,842,121
31 December 2010 (Audited)				
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
Non government floating rate 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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2011

6. INVESTMENT SECURITIES (CONTINUED)

6.1 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 93 million, from the fair value through profit or loss classification to the available-for-sale investments category. As there was no trading in the reclassified investments during the last years prior to re-classification, the management considers that the reclassification provides a more appropriate presentation of the investments in accordance with the Group's long-term investment strategy. As required by the amendments, the effects of such a reclassification are set out below:

	30 September 2011 AED'000 Reviewed	31December 2010 AED'000 Audited
After reclassification		
Unrealised fair value gain / (loss) recognised in statement of other comprehensive income	5,410	(1,800)

7. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS

Customers' deposits	30 September 2011 AED'000 Reviewed	31December 2010 AED'000 Audited
Current and demand accounts	9,205,824	8,695,147
Savings accounts	1,090,464	1,078,228
Time deposits	15,029,103	16,293,353
	<u>25,325,391</u>	<u>26,066,728</u>
Islamic customers' deposits		
Current and demand accounts	387,911	283,083
Mudaraba saving	159,735	66,867
Investment deposits and Wakala	2,089,149	2,792,984
	<u>2,636,795</u>	<u>3,142,934</u>
Total customers' deposits and Islamic customers' deposits	<u>27,962,186</u>	<u>29,209,662</u>

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2011

7. 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.

8. MEDIUM TERM BORROWING

In August 2011, the Group renewed the syndicated loan arrangement for 3 years for USD 450 million 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 175 basis points payable on a quarterly basis.

9. SHARE CAPITAL

The issued and fully paid up ordinary share capital as at 30 September 2011 comprised 1,941,287,596 ordinary shares of AED 1 each (31 December 2010: 1,941,287,596 shares of AED 1 each).

10. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share is based on the Group's profit for the nine and three month period ended 30 September 2011 attributable to the shareholders amounting to AED 777,162 thousand and AED 253,930 thousand respectively (nine and three month ended 30 September 2010: AED 770,612 thousand and AED 257,685 thousand respectively), and on the weighted average number of shares in issue totaling 1,941,287,596 (30 September 2010: 1,941,287,596).

11. CASH AND CASH EQUIVALENTS

	30 September 2011 AED'000 Reviewed	30 September 2010 AED'000 Reviewed
Cash in hand	473,707	537,222
Balances with the Central Bank	319,290	1,007,673
Negotiable certificate of deposits with the Central Bank	3,000,000	1,000,000
Due from banks with original maturities less than three months	1,677,170	1,789,230
	5,470,167	4,334,125
Due to banks with original maturities less than three months	(248,112)	(269,976)
	5,222,055	4,064,149

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued) For the nine-month period ended 30 September 2011

12. CONTINGENT LIABILITIES AND COMMITMENTS

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

	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited
Contingent liabilities:		
Letters of credit	1,179,114	1,243,029
Guarantees	6,727,536	7,146,988
	<u>7,906,650</u>	<u>8,390,017</u>
Credit commitments:		
Undrawn commitments to extend credit	7,919,528	7,162,746
Total contingent liabilities and commitments	<u>15,826,178</u>	<u>15,552,763</u>

13. 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.

Interest is charged or credited to business segments and branches at match funding transfer pricing rates which approximate the replacement cost of funds. Other central costs are allocated to business segments on a reasonable basis.

Geographical

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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2011

13. SEGMENTAL REPORTING (CONTINUED)

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

	Corporate banking AED'000	Consumer banking AED'000	Treasury and investments AED'000	Islamic Banking AED'000	Total AED'000
30 September 2011 (Reviewed)					
Assets	25,772,957	2,247,114	6,545,585	3,162,704	37,728,360
Liabilities	21,115,051	5,695,690	1,965,939	2,670,047	31,446,727
31 December 2010 (Audited)					
Assets	26,475,777	2,374,607	6,942,348	2,718,516	38,511,248
Liabilities	22,035,540	5,592,048	1,808,580	3,196,139	32,632,307
30 September 2011 (Reviewed)					
Net interest income and Income from Islamic financing	824,343	142,831	4,222	35,715	1,007,111
Other income	254,745	29,304	101,307	2,599	387,955
Total operating income	1,079,088	172,135	105,529	38,314	1,395,066
Allocated cost	248,108	77,329	31,109	21,257	377,803
Impairment allowances net of recoveries	143,778	50,969	-	1,736	196,483
Depreciation and amortization	27,060	11,405	1,339	3,814	43,618
Total expenses	418,946	139,703	32,448	26,807	617,904
Net profit for the period	660,142	32,432	73,081	11,507	777,162
30 September 2010 (Reviewed)					
Net interest income and Income from Islamic Financing	857,727	129,503	48,835	12,255	1,048,320
Other income	246,376	28,255	86,498	892	362,021
Total operating income	1,104,103	157,758	135,333	13,147	1,410,341
Allocated cost	234,233	81,675	31,124	17,227	364,259
Impairment allowances net of recoveries	189,645	45,389	-	219	235,253
Depreciation and amortization	25,412	9,912	1,223	3,670	40,217
Total expenses	449,290	136,976	32,347	21,116	639,729
Net profit for the period	654,813	20,782	102,986	(7,969)	770,612

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2011

14. RELATED PARTY TRANSACTIONS

	Directors and key management personnel		Other related parties	
	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited
Loans and advances				
At 1 January	185,572	184,844	705,718	865,826
Loans issued	9,346	11,911	368,460	129,226
Repayments	(20,470)	(11,183)	(475,996)	(289,334)
Closing balance	174,448	185,572	598,182	705,718
Deposits				
At 1 January	12,475	30,911	1,957,363	161,919
Received	12,992	11,592	1,041,663	1,921,167
Repaid	(10,261)	(30,028)	(1,913,717)	(125,723)
Closing balance	15,206	12,475	1,085,309	1,957,363
	30 September 2011 AED'000 Reviewed	30 September 2010 AED'000 Reviewed	30 September 2011 AED'000 Reviewed	30 September 2010 AED'000 Reviewed
Interest income	6,262	6,530	26,461	34,382
Interest expense	39	351	6,687	23,610

No provisions for impairment have been recognised in respect of loans given to related parties (31 December 2010: NIL).

The loans issued to directors during the nine-month period ended 30 September 2011 are unsecured and repayable monthly over a maximum period of 5 years (31 December 2010: 5 years) and carry interest at the rates comparable to the third party loans.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Key management compensation

	30 September 2011 AED'000 Reviewed	30 September 2010 AED'000 Reviewed
Salaries and other short-term benefits	12,083	9,999
Post retirement benefits	756	350

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2011

15. CAPITAL ADEQUACY

The Group's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Group and its subsidiary have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period. The capital adequacy ratio should be a minimum of 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% by 30 September 2010 as advised by the Central Bank.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the Central Bank of the UAE.

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

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges, general collective provision and subordinated term loans.

The following limits have been applied for Tier 2 capital:

- Total tier 2 capital shall not exceed 67% of tier 1 capital;
- Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
- General Collective provision shall not exceed 1.25% of total risk weighted assets.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2011

15. CAPITAL ADEQUACY (CONTINUED)

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

	Basel II		Basel I	
	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited	30 September 2011 AED'000 Reviewed	31 December 2010 AED'000 Audited
Core tier 1 capital				
Share capital	1,941,287	1,941,287	1,941,287	1,941,287
Legal reserve	1,379,683	1,379,683	1,379,683	1,379,683
General reserve	1,100,000	1,100,000	1,100,000	1,100,000
Retained earnings	1,785,648	1,008,486	1,785,648	1,008,486
Tier 1 Capital	6,206,618	5,429,456	6,206,618	5,429,456
Upper tier 2 capital				
Fair value reserve	16,370	7,015	16,370	7,015
Collective provisions	430,066	424,566	-	-
	446,436	431,581	16,370	7,015
Lower tier 2 capital				
Subordinated term loans	1,841,526	1,841,526	1,841,526	1,841,526
Tier 2 capital	2,287,962	2,273,107	1,857,896	1,848,541
Deductions from Tier 1 & Tier 2				
Investments in un consolidated subsidiaries	(10,000)	(10,000)	(10,000)	(10,000)
Total capital base (a)	8,484,580	7,692,563	8,054,514	7,267,997
Risk weighted assets (RWA) Pillar 1				
On-balance sheet	-	-	25,882,794	26,014,975
Off-balance sheet	-	-	5,137,361	5,365,122
Credit risk	32,395,127	31,477,290	-	-
Market risk	10,891	28,305	-	-
Operational risk	2,667,637	3,334,546	-	-
Risk weighted assets (b)	35,073,655	34,840,141	31,020,155	31,380,097
Tier 1 ratio	17.70%	15.58%	20.01%	17.30%
Capital adequacy ratio (Pillar 1) (c) = [(a)/(b)]	24.19%	22.08%	25.97%	23.16%

Pillar II capital charge representing residual risk not covered under pillar I is 1.80% (December 2010: 1.80%)

16. COMPARATIVE FIGURES

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