بـنك دبـي التجـــاري
Commercial Bank of Dubai

Management Discussion & Analysis

Commercial Bank of Dubai records 22% increase in Operating Profit in 2008, and net profit reaches AED 771 Million.

Dubai, February 17, 2009: Commercial Bank of Dubai (CBD) has announced an operating profit of AED 1,190 Million for the year ended on December 31, 2008, up by 22% as compared to AED 977 Million for 2007. During the last quarter of 2008, the impact of the global financial crisis has negatively affected the market value of some of the bank's strategic equity investments in local and regional listed companies. Although the respective companies are not impaired, as a measure of prudence and in line with IFRS, the Bank has booked an AED 397 Million provision to reflect the decrease in market values. As a result, the Bank posted a net profit of AED 771 Million for the full year of 2008; a 17.5% decline when compared to AED 935 Million for 2007.

The results were announced following a meeting of the Board of Directors held on Tuesday, February 17, 2009. The Board has proposed issuing 25% Bonus Shares per share held and cash dividend of 15%. This is subject to the approval of the shareholders at the Annual General Meeting to be held on 18th March 2009.

Total assets reached AED 36 Billion at the end of 2008, up 17% from year end 2007. Customers' deposits increased by 22% to AED 26 Billion and loans and advances showed a growth of 38% up to AED 28.5 Billion. Interest margins remained healthy in a highly competitive market, net interest income increased by 31%, fees and commissions increased by 27% compared to 2007 and foreign exchange income increased by 109%. As a result of a strong increase of operating income and effective expense management, the bank's cost to income ratio improved to 29% in 2008.

The bank's capital adequacy ratio remains strong at 13%, well above the minimum required by the Central Bank. The quality of the credit portfolio improved further in 2008, with non-performing loans at AED 241 Million by year end 2008, representing 0.83% of total loans. The provision coverage ratio for non-performing loans has reached 96%, after further provisions of AED 83 Million were added in view of the uncertain economic environment in 2009.

The Bank's financial results for the year 2008 demonstrate that the Bank continues to enjoy a high level of performance:

- Net Interest Margin 4.1% (2007: 3.4%)
- Coverage Ratio (provisions / non performing loans): 96% (2007: 91.4%)
- Efficiency Ratio (operating cost / operating income): 29% (2007: 29.4%).

Mr. Peter Baltussen, Chief Executive Officer of the Banks stated, "We are pleased that the results from our core operations have continued to grow across all lines of business, in spite of a slow down of the economy in the second half of 2008. In line with our conservative approach, the bank has taken a provision on its local and regional equity portfolio to reflect the decrease of the respective share-prices. However, it should be noted that the underlying listed companies continue to show strong profits and are not impaired."

He added, “The quality of our loan portfolio has remained very strong in 2008, while our bank’s net interest margin continues to be one of the highest in the UAE banking sector. Over the last years the Bank has strongly invested in its franchise, its people and its systems and we remain well placed to continue to play a significant role in the further economic development of the UAE."

Corporate Banking continues to be the core line of business for the Bank, representing more than 89% of the Bank’s loan portfolio, of which trade business constitutes 36%. In 2008, Corporate Banking recorded a strong level of growth diversified across all economic sectors with a specific focus on the medium and large sized family owned companies that comprise the core client base for the Bank.

The continued focus of the Al Dana segment on High Net Worth Individual clients resulted in a growth of 75% of this segment’s client base with new Al Dana Wealth Centres being opened in our Old Town, Sharjah and Dubai Marina branches. We further strengthened our Wealth Management capabilities by more than doubling the number of relationship managers who have been trained and certified as Chartered Wealth Managers by the American Academy of Financial Management.

Asset & Liability Management

2008 was an eventful year for treasury and capital markets. The ongoing global financial crisis that unfolded throughout the year is the worst that the world has witnessed in many decades. The abundance of liquidity in the early part of the year quickly reversed from July onwards and over the last few months of the year, central banks around the world were obliged to support their local markets by adding billions of dollars into the financial system to avert a complete shutdown of markets.

The lack of confidence caused by the crisis meant that credit spreads on Fixed Income securities widened to unprecedented levels. Treasury was able to successfully manage the Bank’s liquidity throughout the year and to produce revenues significantly ahead of 2007 from its trading and sales activities.

During the third quarter of 2008, the Bank established a US$ 2 Billion Euro Medium Term Note programme which, when the Capital Markets stabilise, will allow the raising of medium-term funding via the issuance of bonds. In September, the bank raised

US$400 Million for three years in a private club deal with nine major international banks; this transaction was completed at a very difficult time in the markets and its success is a reflection of the excellent relationships that CBD has with major international banks.

Key Developments :

- During the year, the bank unveiled its new **Mission, Vision and Values**, these reflect a strong ambition for the future and clearly aim at achievement of the highest possible financial as well as non-financial goals for CBD's main stakeholders:
  Clients, Employees, Society and Shareholders.
  Also the bank underlined its core corporate values **(4 C's)**
  Clients First, **C**onsistent High Quality, **C**ooperation and teamwork and **C**apability through learning and empowerment.
- During the year, the bank won the prestigious **Dubai Quality Award – Gold Category** in the Financial Services Sector. The award was presented by H.H. Sheikh Maktoum bin Mohammad bin Rashid Al Maktoum, Deputy Ruler of Dubai. Introduced by the Department of Economic Development, Dubai Quality Award is the single most valuable framework for companies to measure their business performance and to achieve higher growth through leadership innovation and continuous improvement.
- During Ramadan, CBD introduced its new Islamic window **– Attijari Al Islami**, a comprehensive Shariah-compliant offering of products and services through new branches in Dubai and Abu Dhabi, with additional branches scheduled in other Emirates.
- During the year, the bank received the certification from the **International Social Accountability Standard (SA 8000) –** the first bank in the region to receive this prestigious certification.
- The bank was awarded **Best Transparency and Disclosure Award** by the Hawkamah Institute for Corporate Governance.
- The bank has been awarded **Platinum Award** from Securities and Commodities Authority (ESCA). The award is given in recognition of the timely disclosures of the financial information.
- The bank was awarded the **Best Personal Loan** and **New Product Innovation Award** for the Mortgage Loans in the Banker Middle East Industry Awards 2008.

Ratings:

<u>Fitch</u>

In its last rating received on January 19th 2009, Fitch affirmed the **Long- term Issuer Default (IDR) 'A'** and the **Short-term IDR 'F1'**. The outlook for the ratings is '**Stable'** with Support Rating Floor 'A'.

Moody's Investors Services

In its last rating received on July 22nd 2008, Moody's assigned '**A2' long term** and '**Prime-1' short term** deposit ratings for the bank. The outlook for the ratings is '**Stable'**.

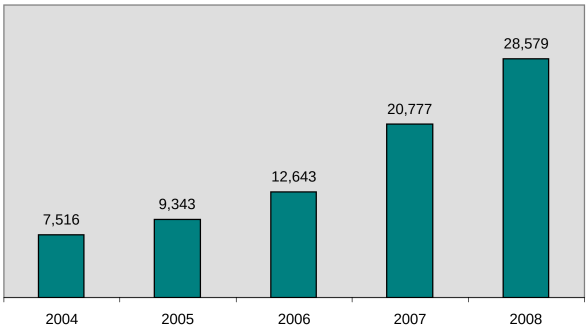
Capital Intelligence

Last received in July 2008, CI affirmed **'A' Long-term** and **'A2' Short-term**, with a Support rating '2'. The outlook for the ratings is '**Stable**'.

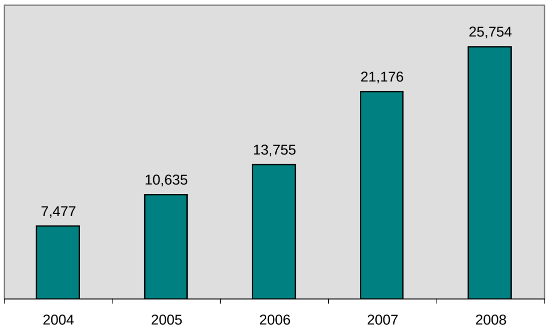
Established in the UAE in 1969, Commercial Bank of Dubai offers a wide range of commercial and consumer banking products and services through a network of 23 branches, 3 Islamic Branches, 2 Cash Offices and 145 ATMs in the UAE. The Bank is listed in DFM and fully owned by UAE Nationals, including 20% by the Government of Dubai.

These results are subject to approval by the Central Bank of the UAE and shareholders at their Annual General Meeting.

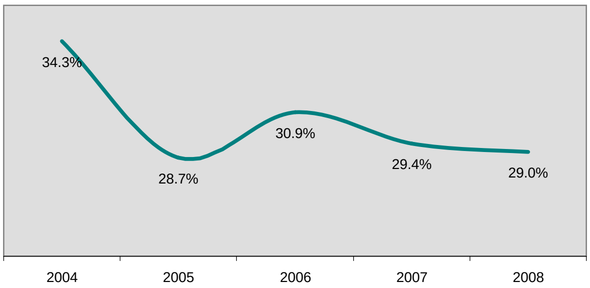
Loans & Advances
(AED Millions)



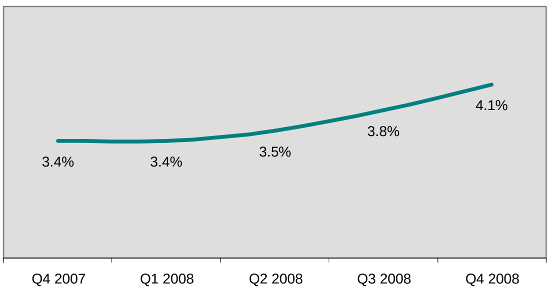
Customers' Deposits
(AED Millions)



Cost to Income (%)



Net Interest Spread (%)



Non Performing Loans and Coverage Ratio