



Management Discussion and Analysis Report
Third Quarter 2020
28th October 2020



Commercial Bank of Dubai (CBD) reports Third Quarter 2020 net profit of AED 816m and operating profit of AED 1,515m

Dubai, 28th October 2020: Commercial Bank of Dubai (CBD) today reported its financial results for the first nine months of 2020.

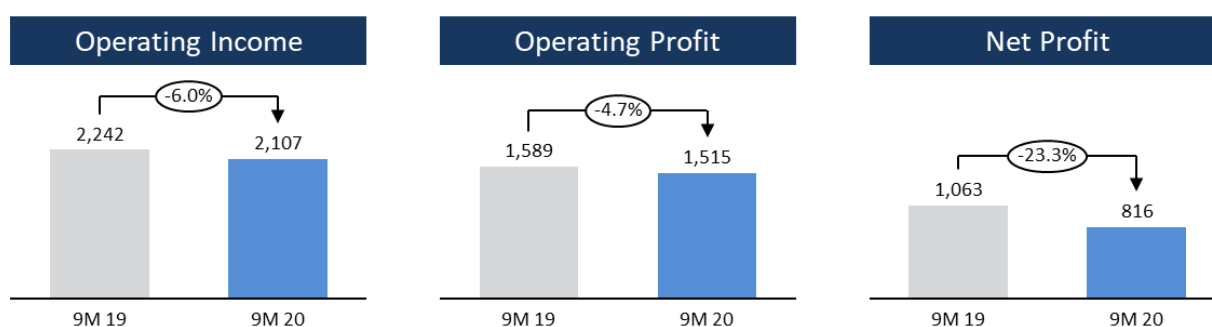
Noteworthy Financial Commentary:

2020 9M results:

- ▶ Net profit was AED 816 million, 23.3% below the prior comparative period
- ▶ Operating income was AED 2,107 million, down by 6.0% compared to the prior comparative period, primarily due to sharply lower interest rates
- ▶ Operating expenses were AED 591 million, lower by 9.4%
- ▶ Operating profit was AED 1,515 million, down by 4.7%
- ▶ Net impairment allowances were AED 699 million, up 32.9%, attributable to specific credit provisions and forecast credit losses associated with the Covid-19 pandemic

As at 30th September 2020:

- ▶ Capital ratios remained strong with the capital adequacy ratio (CAR) at 14.40% and the common equity Tier 1 ratio (CET1) at 13.24%
- ▶ Gross loans were AED 66.5 billion, an increase of 3.8% compared to 31st December 2019
- ▶ Advances to stable resources ratio (ASRR) stood at 91.03%
- ▶ Non-performing loan (NPL) ratio increased by 103 bps to 6.97%, compared to 5.94% in December 2019



Performance Review

The Commercial Bank of Dubai has delivered a net profit result of AED 816 million for 9M 2020, down 23.3% against 9M 2019. The Covid-19 pandemic has caused a contraction in business conditions and confidence, leading to historically low interbank interest rates and increased specific and forecast credit losses.

Consequently, impairment allowances taken were AED 699 million for 9M 2020, up by 32.9% on 9M 2019.



Operating income for 9M 2020 amounted to AED 2,107 million, a decrease of 6.0%, attributable to lower Net Interest Income (NII) by 8.7% as a result of significantly lower interest rates and a 0.5% decrease in Other Operating Income (OOI) as business conditions deteriorated following the onset of the Covid 19 pandemic.

Operating expenses were AED 591 million, down 9.4% compared to 9M 2019. The bank successfully progressed transformation activity as our customers further embraced digital solutions. The cost to income ratio improved to 28.1% from 29.2% in December 2019.

	(AED Million)					
Income statement	9M 20	9M 19	PoP Var	Q3 20	Q2 20	QoQ Var
Net interest income and Islamic financing income	1,373	1,504	(8.7)%	443	445	(0.3)%
Other operating income	734	738	(0.5)%	251	211	19.4%
Total revenue	2,107	2,242	(6.0)%	695	655	6.0%
Operating expenses	591	653	(9.4)%	205	185	10.8%
Operating profit	1,515	1,589	(4.7)%	490	470	4.1%
Net impairment allowances	699	526	32.9%	204	255	(19.9)%
Net profit	816	1,063	(23.3)%	285	215	32.6%

Balance Sheet

Total assets were AED 92.8 billion as at the 30th of September 2020, an increase of 12.4% compared to AED 82.5 billion as at the 30th September 2019.

Net loans and advances were AED 63.0 billion, registering an increase of 11.7% compared to AED 56.4 billion as at the 30th September 2019.

Customers' deposits were AED 64.0 billion as at the 30th of September 2020, representing an increase of 8.4% compared to AED 59.1 billion as at the 30th September 2019. Low cost current and savings accounts (CASA) constitute 43.4% of the total deposit base, while the financing-to-deposits ratio stood at 98.4%.

	(AED Million)					
Balance Sheet	Sep 20	Sep 19	PoP Var	Sep 20	Jun 20	QoQ Var
Gross loans and advances	66,490	59,929	10.9%	66,490	66,758	(0.4)%
Allowances for Impairment	3,510	3,556	(1.3)%	3,510	3,339	5.1%
Net loans and advances	62,980	56,373	11.7%	62,980	63,420	(0.7)%
Total assets	92,750	82,539	12.4%	92,750	93,682	(1.0)%
Customers' deposits	64,000	59,066	8.4%	64,000	65,319	(2.0)%
Shareholders' equity	10,526	9,918	6.1%	10,526	10,186	3.3%



Asset Quality

The non-performing loan (NPL) ratio increased to 6.97%, up from 5.94% at the end of 2019.

In accordance with IFRS9 accounting standards, the bank increased credit provisions on the back of several specific credit events and forecast expected credit losses associated with the impact of Covid-19. As a result, the net impairment charge totaled AED 699 million for the first nine months of 2020. The coverage ratio was 64.16% (105.09% inclusive of collateral for stage 3 loans), down from 83.14% at the end of 2019. As at the 30th of September 2020, total allowances for impairments amounted to AED 3,510 million.

Liquidity and Capital position

The bank's liquidity position remained robust with the advances to stable resources ratio at 91.0% as at the 30th of September 2020 (Dec 2019: 88.0%), compared to the UAE Central Bank limit of 100%.

CBD's **capital ratios** remained strong with the capital adequacy and common equity Tier 1 (CET1) ratios at 14.40% and 13.24%, respectively. All capital ratios were significantly above the minimum regulatory thresholds mandated by the UAE Central Bank.

	(%)					
Key ratios	9M 20	9M 19	PoP Var	Q3 20	Q2 20	QoQ Var
Return on equity	10.76	15.04	(428)	11.02	8.66	236
Return on assets	1.22	1.82	(60)	1.22	0.94	29
Cost to income ratio	28.07	29.11	(104)	29.51	28.23	127
Capital adequacy ratio	14.40	14.75	(35)	14.40	14.03	37
Non-performing loans (NPL)	6.97	5.53	145	6.97	6.97	-
Provision coverage	64.16	89.69	(2,552)	64.16	60.88	328
Loan to deposit ratio	98.41	95.44	297	98.41	97.09	131
Advances to stable resources	91.03	87.50	353	91.03	90.18	85
Tier 1 and CET1 ratio	13.24	13.59	(35)	13.24	12.87	37

Commenting on the bank's performance, **Dr. Bernd van Linder, Chief Executive Officer** said, "CBD has delivered a significantly improved quarter-on-quarter performance while navigating the challenging market environment. Despite the lower overall performance for the first 9 months of 2020 compared to 2019, CBD continues to deliver on its strategy and is poised to end the year on a strong footing. Overall, our net profit was AED 816 million, below the prior comparative period by 23.3% on the back of lower interest rates, weaker business conditions and higher specific and expected credit losses."



He added, "We have continued our proactive approach to support our customers, employees and the UAE economy during the pandemic. Throughout this period, CBD has maintained uninterrupted banking services offering a wide array of service delivery channels underpinning a high rate of digital adoption right across the bank.

While global and domestic business conditions and confidence continue to be weak, we commend our leaders and the government of the United Arab Emirates for the continued proactive measures taken. These steps have ensured the well-being of citizens and positioned the UAE to further progress the economic recovery.

Following on from the recent landmark AT1 transaction the bank remains well positioned to support our customers and the UAE economy now and into the future."

Ratings

Agency	Rating	Outlook	Date
Fitch Ratings	A-	Stable	Jun-20
Moody's	Baa1	Negative	Jun-20

About CBD

The bank was incorporated in Dubai, United Arab Emirates in 1969 and is registered as a Public Shareholding Company (PSC).

The bank is listed on the Dubai Financial Market and is majority owned by UAE Nationals, including 20% by the Investment Corporation of Dubai (ICD). The bank employs over 1,300 staff and offers a wide range of conventional and Islamic banking products and services to its corporate, commercial and personal banking customers through a network of 15 branches. Moreover the bank has invested in an extensive network of 150 ATMs/CDMs.

For further information, kindly contact: CBD Investor Relations @ investor.relations@cbd.ae