



Management Discussion and Analysis Report
First Quarter 2020
22nd April 2020



Commercial Bank of Dubai (CBD) reports Q1 2020 net profit of AED 315m and operating profit of AED 555m

Dubai, 22nd April 2020: Commercial Bank of Dubai (CBD) today reported its financial results for the first quarter of 2020.

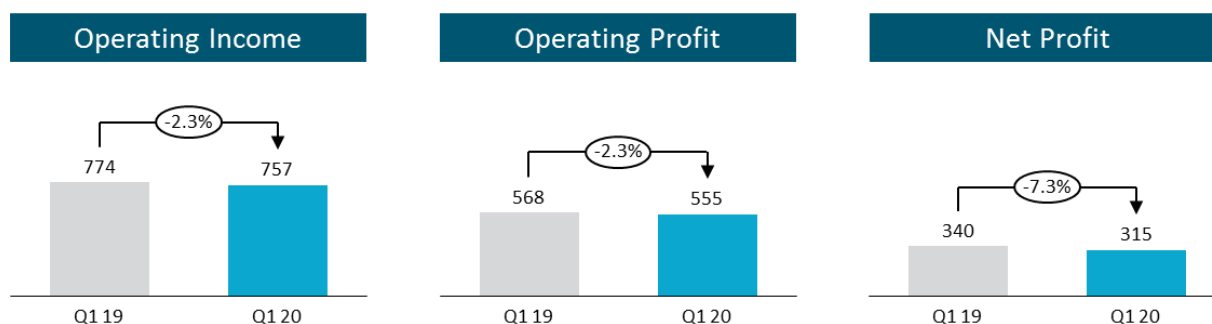
Noteworthy Financial Commentary:

2020 first quarter results:

- ▶ Net profit was AED 315 million, 7.3% below the prior comparative quarter
- ▶ Operating income was AED 757 million down, by 2.3% compared to the prior comparative quarter predominantly due to lower interest rates
- ▶ Operating expenses were lower by 2.2% to AED 201 million
- ▶ Operating profit was AED 555 million, down by 2.3%
- ▶ Net impairment allowances were AED 240 million due to higher forecast credit losses expected on the back of the Covid-19 pandemic as well as specific credit provisions

As at 31st March 2020:

- ▶ Capital ratios remained strong with the capital adequacy ratio (CAR) at 13.86% and the common equity Tier 1 ratio (CET1) at 12.71%
- ▶ Gross loans were AED 65.8 billion, an increase of 2.8% compared to 31st December 2019
- ▶ Advances to stable resources ratio (ASRR) stood at 90.8%
- ▶ Non-performing loan (NPL) ratio increased by 66 bps to 6.59% compared to 5.94% in 2019



Performance Review

The Commercial Bank of Dubai has delivered a net profit result of AED 315 million for Q1 2020, down 7.3% against Q1 2019. The result was adversely impacted by low interest rates, weaker business conditions, specific credit events and anticipated impacts associated with the Covid-19 pandemic. Consequently, impairment allowances taken were AED 240 million for Q1 2020.

Operating income for Q1 2020 amounted to AED 757 million, a decrease of 2.3% attributable to lower Net Interest Income (NII) (1.7%) as a result of sharply lower interest rates and a 3.3% decrease in Other Operating Income (OOI).



Operating expenses were AED 201 million, down 2.2% compared to Q1 2019. The bank continued investment in digital capability to support customers whilst maintaining strong expense discipline across business operations. The cost to income ratio decreased to 26.6% from 29.4% in Q4 2019.

(AED Million)

Income statement	Q1 20	Q1 19	PoP Var	Q1 20	Q4 19	QoQ Var
Net interest income and Islamic financing income	485	493	(1.7)%	485	461	5.1%
Other operating income	272	281	(3.3)%	272	330	(17.6)%
Total revenue	757	774	(2.3)%	757	791	(4.4)%
Operating expenses	201	206	(2.2)%	201	232	(13.4)%
Operating profit	555	568	(2.3)%	555	559	(0.6)%
Net impairment allowances	240	228	5.1%	240	222	8.3%
Net profit	315	340	(7.3)%	315	337	(6.4)%

Balance Sheet

Total assets were AED 89.9 billion as at the 31st of March 2020, an increase of 2.1% compared to AED 88.1 billion as at the 31st of December 2019.

Net loans and advances were AED 62.3 billion, registering an increase of 3.6% compared to AED 60.2 billion as at the end of 2019.

Customers' deposits were AED 63.9 billion as at the 31st of March 2020 representing an increase of 0.9% compared to AED 63.3 billion at the end of 2019. Low cost current and savings accounts (CASA) constitute 40.6% of the total deposit base, while the financing-to-deposits ratio stood at 97.6%.

(AED Million)

Balance sheet	Mar-20	Dec-19	YTD Var
Gross loans and advances	65,848	64,039	2.8%
Allowances for impairment	3,513	3,858	(9.0)%
Net loans and advances	62,335	60,181	3.6%
Total assets	89,881	88,069	2.1%
Customers' deposits	63,900	63,334	0.9%
Shareholders' equity	9,695	10,217	(5.1)%



Asset Quality

The non-performing loan (NPL) ratio increased to 6.59% up from 5.94% at the end of 2019.

In accordance with IFRS9 accounting standards, the bank increased expected credit losses, predominantly associated with forecast Covid-19 impacts and several specific credit events. As a result, the net impairment provisions totalled AED 240 million for the quarter. The coverage ratio was 66.62%, down from 83.14% at the end of 2019. As at the 31st of March 2020, total allowances for impairments amounted to AED 3,513 million.

Liquidity and Capital position

The bank's liquidity position remained robust with the advances to stable resources ratio at 90.8% as at the 31st of March 2020 (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 13.86% and 12.71%, respectively. All capital ratios were significantly above the minimum regulatory thresholds mandated by the UAE Central Bank.

Key ratios	(%)					
	Q1 20	Q1 19	PoP Var	Q1 20	Q4 19	QoQ Var
Return on equity	13.14	15.02	(188)	13.14	13.39	(25)
Return on assets	1.55	1.79	(24)	1.55	1.58	(3)
Cost to income ratio	26.61	26.58	3	26.61	29.38	(277)
Capital adequacy ratio	13.86	15.00	(114)	13.86	14.17	(31)
Non-performing loans (NPL)	6.59	6.04	55	6.59	5.94	66
Provision coverage	66.62	81.63	(1,501)	66.62	83.14	(1,652)
Loan to deposit ratio	97.55	94.85	270	97.55	95.02	253
Advances to stable resources	90.80	87.83	297	90.80	87.96	284
Tier 1 and CET1 ratio	12.71	13.85	(114)	12.71	13.02	(31)



Commenting on the bank's performance, **Dr. Bernd van Linder, Chief Executive Officer** said, "The current environment is challenging for every community around the world including across the United Arab Emirates. Notwithstanding this difficult operating environment we continued to grow our market share in Q1 20, delivering on our strategy.

First and foremost, we would like to commend our leaders and the government here in the United Arab Emirates for the outstanding proactive measures taken during this crisis period. These steps will ensure the well-being of our citizens and deliver a swift and complete recovery of the local economy. We would also like to highlight the comprehensive economic support measures undertaken by the Central Bank through the Targeted Economic Support Scheme (TESS).

Importantly, at CBD we have implemented a wide reaching program ensuring the safety of our employees and customers. At present, we have the vast majority of employees working remotely by successfully leveraging the digital investments made in systems and processes for our customers and employees over the last several years. We are also pleased to have been able to support our customers with tailored solutions aligned with TESS and to meet their banking needs through this difficult time.

Overall our underlying results were weaker by 7.3% on the back of lower interest rates, weaker business conditions and higher expected credit losses. In accordance with accounting standards, we have prudently increased forecast expected credit losses associated with Covid-19 in anticipation of challenging economic conditions for the remainder of the year. Notably, the bank's capital base continues to provide a strong foundation for continued support to our customers during the ongoing economic uncertainty associated with Covid-19 and beyond. Liquidity and eligible liquid asset ratios are comfortably above the minimum levels prescribed by the UAE Central Bank".

He added, "During this challenging period our organization will continue to support our customers now and into the future, and we will stand with UAE businesses as the economy moves into recovery".



Ratings

Agency	Rating	Outlook	Date
Fitch Ratings	A-	Stable	Jun-19
Moody's	Baa1	Negative	Dec-18

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 fully owned by UAE Nationals, including 20% by the Investment Corporation of Dubai (ICD). The bank employs over 1,400 staff. It 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 and 1 sales office. Moreover the bank has invested in an extensive network of 153 ATMs/CDMs.

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