



Management Discussion and Analysis Report
First Half 2020
26th July 2020



Commercial Bank of Dubai (CBD) reports First Half 2020 net profit of AED 530m and operating profit of AED 1,026m

Dubai, 26th July 2020: Commercial Bank of Dubai (CBD) today reported its financial results for the first six months of 2020.

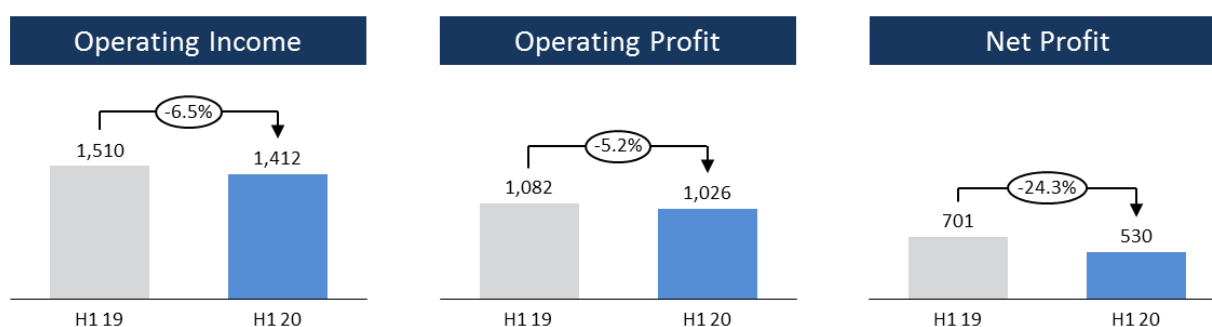
Noteworthy Financial Commentary:

2020 H1 results:

- ▶ Net profit was AED 530 million, 24.3% below the prior comparative period
- ▶ Operating income was AED 1,412 million, down by 6.5% compared to the prior comparative period due to sharply lower interest rates
- ▶ Operating expenses were AED 386 million lower by 9.9%
- ▶ Operating profit was AED 1,026 million, down by 5.2%
- ▶ Net impairment allowances were AED 495 million, up 30.1% attributable to specific credit provisions together with forecast expected credit losses associated with the Covid-19 pandemic

As at 30th June 2020:

- ▶ Capital ratios remained strong with the capital adequacy ratio (CAR) at 14.03% and the common equity Tier 1 ratio (CET1) at 12.87%
- ▶ Gross loans were AED 66.8 billion, an increase of 4.2% compared to 31st December 2019
- ▶ Advances to stable resources ratio (ASRR) stood at 90.2%
- ▶ 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 530 million for H1 2020, down 24.3% against H1 2019. The Covid-19 pandemic has caused a severe contraction in business conditions leading to historically low interbank interest rates and increased specific and forecast expected credit losses.

Consequently, impairment allowances taken were AED 495 million for H1 2020, up by 30.1% on H1 2019.



Operating income for H1 2020 amounted to AED 1,412 million, a decrease of 6.5% attributable to lower Net Interest Income (NII) by 7.1% as a result of significantly lower interest rates and a 5.4% decrease in Other Operating Income (OOI) as business conditions deteriorated sharply during the economic lockdown.

Operating expenses were AED 386 million, down 9.9% compared to H1 2019. The bank accelerated transformation activity as the economy experienced an unprecedented downturn. The cost to income ratio improved to 27.4% from 29.2% in December 2019.

(AED Million)

Income statement	H1 20	H1 19	PoP Var	Q2 20	Q1 20	QoQ Var
Net interest income and Islamic financing income	929	1,000	(7.1)%	445	485	(8.2)%
Other operating income	482	510	(5.4)%	211	272	(22.5)%
Total revenue	1,412	1,510	(6.5)%	655	757	(13.4)%
Operating expenses	386	429	(9.9)%	185	201	(8.1)%
Operating profit	1,026	1,082	(5.2)%	470	555	(15.3)%
Net impairment allowances	495	380	30.1%	255	240	6.4%
Net profit	530	701	(24.3)%	215	315	(31.8)%

Balance Sheet

Total assets were AED 93.7 billion as at the 30th of June 2020, an increase of 19.4% compared to AED 78.4 billion as at the 30th June 2019.

Net loans and advances were AED 63.4 billion, registering an increase of 15.6% compared to AED 54.8 billion as at the 30th June 2019.

Customers' deposits were AED 65.3 billion as at the 30th of June 2020 representing an increase of 18.2% compared to AED 55.3 billion as at the 30th June 2019. Low cost current and savings accounts (CASA) constitute 42.1% of the total deposit base, while the financing-to-deposits ratio stood at 97.1%.

(AED Million)

Balance Sheet	Jun 20	Jun 19	PoP Var	Jun 20	Mar 20	QoQ Var
Gross loans and advances	66,758	58,285	14.5%	66,758	65,848	1.4%
Allowances for Impairment	3,339	3,445	(3.1)%	3,339	3,513	(5.0)%
Net loans and advances	63,420	54,841	15.6%	63,420	62,335	1.7%
Total assets	93,682	78,431	19.4%	93,682	89,881	4.2%
Customers' deposits	65,319	55,264	18.2%	65,319	63,900	2.2%
Shareholders' equity	10,186	9,501	7.2%	10,186	9,695	5.1%



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 as a result of several specific credit events and forecast expected credit losses associated with the impact of Covid-19. As a result, the net impairment charge totalled AED 495 million for the first six months of 2020. The coverage ratio was 60.88% (105.89% inclusive of collateral for stage 3 loans), down from 83.14% at the end of 2019. As at the 30th of June 2020, total allowances for impairments amounted to AED 3,339 million. During the quarter excellent progress was made towards realizing the security against impaired loans with the coverage ratio expected to increase materially as large fully collateralised loans are forecast to be recovered in the second half of the year.

Liquidity and Capital position

The bank's liquidity position remained robust with the advances to stable resources ratio at 90.2% as at the 30th of June 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 14.03% and 12.87%, respectively. All capital ratios were significantly above the minimum regulatory thresholds mandated by the UAE Central Bank.

Key ratios	(%)					
	H1 20	H1 19	PoP Var	Q2 20	Q1 20	QoQ Var
Return on equity	10.71	15.15	(443)	8.66	13.14	(448)
Return on assets	1.23	1.84	(61)	0.94	1.55	(61)
Cost to income ratio	27.36	28.38	(102)	28.23	26.61	162
Capital adequacy ratio	14.03	14.96	(93)	14.03	13.86	17
Non-performing loans (NPL)	6.97	5.52	145	6.97	6.59	37
Provision coverage	60.88	88.81	(2,793)	60.88	66.62	(574)
Loan to deposit ratio	97.09	99.23	(214)	97.09	97.55	(46)
Advances to stable resources	90.18	90.02	16	90.18	90.80	(62)
Tier 1 and CET1 ratio	12.87	13.81	(94)	12.87	12.71	16

Commenting on the bank's performance, **Dr. Bernd van Linder, Chief Executive Officer** said, "CBD has delivered a lower performance for the first 6 months of 2020 primarily attributable to the unprecedented challenging market environment. Notwithstanding these very difficult operating conditions, we continue to execute on our strategy and are positioned well for improved business conditions in the quarters ahead.

While global and domestic business conditions are weak and somewhat uncertain, we commend our leaders and the government in the United Arab Emirates for the continued proactive measures taken during the crisis period. These steps have ensured the well-being of citizens and positioned the UAE to further progress the economic recovery. We would also like to highlight the



comprehensive economic support measures undertaken by the Central Bank through the Targeted Economic Support Scheme (TESS).”

He added “We continue to proactively take necessary measures to support our customers, employees and the UAE economy during the pandemic. CBD has maintained uninterrupted banking services throughout the Covid-19 pandemic with an emphasis on improving the digital services to our customers. Aligned with Central Bank recommendations, we have offered extensive relief measures for our customers including the deferral of loan payments, fee reductions and waivers under the TESS scheme.

Overall our net profit was AED 530 million below the prior comparative period by 24.3% on the back of lower interest rates, weaker business conditions and higher specific and expected credit losses. In accordance with accounting standards, we have prudently provided for future expected credit losses associated with challenging economic conditions. The bank remains well positioned to support our customers and the UAE economy as business conditions recover. Liquidity and eligible liquid asset ratios remain comfortably above the minimum levels set out by the UAE Central Bank”.

Ratings

Agency	Rating	Outlook	Date
Fitch Ratings	A-	Stable	May-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 153 ATMs/CDMs.

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