MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

Dubai Islamic Bank PJSC

Dubai, United Arab Emirates

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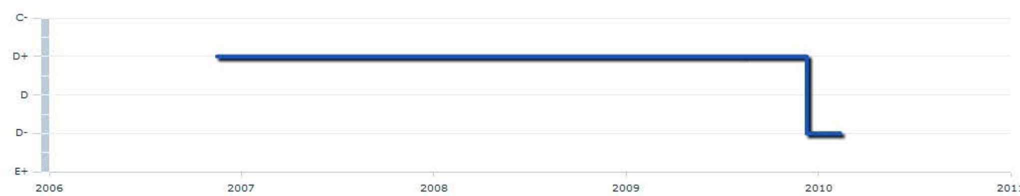
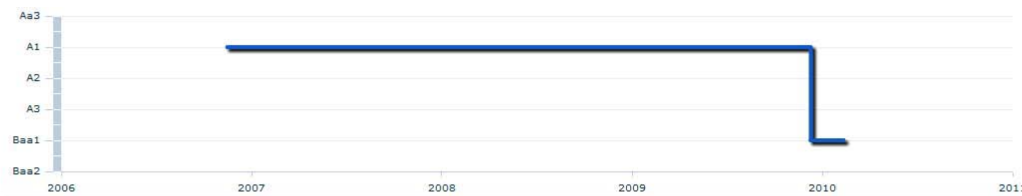
This Credit Analysis provides an in-depth discussion of credit rating(s) for Dubai Islamic Bank PJSC and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Summary Rating Rationale

Rating History – Bank Financial Strength Rating



Rating History – Long-Term Issuer Rating



Moody's assigns a bank financial strength rating (BFSR) of **D-** to Dubai Islamic Bank PJSC (DIB), which translates into a Baseline Credit Assessment (BCA) of **Ba3**. The rating is constrained by significant credit concentrations, by name, sector and geography, as well as the bank's sizeable lending to government and government-related entities, which, despite their credit quality, leads to a high level of related-party exposure and thus governance weakness. However, the rating also reflects DIB's strong franchise as the largest Islamic bank in the United Arab Emirates (UAE) and one of the leading Islamic financial institutions globally, together with its adequate financial fundamentals, including stable earnings power, better business diversification and good profitability.

The rating also captures the fact that, in the context of rapid credit growth, a large proportion of DIB'scredit portfolio is being severely hurt by the current economic downturn, as well as the structural challenges Islamic banks face in efficiently managing their liquidity. Additionally, the BFSR takes into account the developing nature of the Islamic banking industry and the challenging operating environment in the bank's domicile, where ample cyclicality in the property and real estate market and share price volatility in the equity market do affect the profitability and asset quality of the UAE's banking sector, and ultimately its capacity to sustain future growth. Moreover, in common with any other Islamic bank, DIB is subject to reputation risk, which could be harmful should the application of Shari'ah rules be perceived as insufficient by the bank's client base.

On 10 December 2009, DIB's BFSR was downgraded to D- from D+, and its BCA to Ba3 from Baa3. The troubled Dubai-based companies (Nakheel and Dubai World) used to heavily borrow from markets and banks, especially domestic ones. Islamic banks made no exception, as they do carry sukuk in their investment books and funded as well as unfunded credit exposures on either Nakheel and /or Dubai World. Therefore, Islamic banks will directly suffer from the provisioning needs and impairment charges attached to such exposures, irrespective of any accounting treatment. In addition to the direct credit-related charges that Islamic financial institutions are expected to suffer from in the short to medium terms, ratings could be driven downward by indirect consequences. On the one hand, the overall quality of credit exposures on Dubai-related companies will have to be reassessed, if not repriced, and confidence as well as liquidity may be fading away, reigniting last years' fears of vanishing liquidity, including on the interbank market. On the other hand, support from Dubai-based shareholders, once assumed high may be viewed as having weakened across the board for all institutions, corporates and banks alike, Islamic or not. However, from one Islamic lender to another, the magnitude of the direct write-downs and indirect knock-on effects will be different. The overall economic environment, sentiment and liquidity profile of Dubai-based companies is expected to deteriorate, a bank still highly concentrated on the Emirate's leading borrowers will likely see its ratings put under pressure. This applies for Dubai Islamic Bank, which ratings used to be on review with negative implications in the wake of several fraud issues, large defaults, sizeable concentration risks and heavy exposures on the depressed property sector. Among UAE-based Islamic financial institutions, DIB is in addition one of the most heavily exposed banks to both Nakheel and Dubai World.

The outlook on DIB's ratings remains **negative**. This reflects: (i) mounting systemic risks within the UAE banking sector; (ii) declining asset liquidity; (iii) challenging and costly funding under current difficult market conditions; (iv) heightened risks attached to the property sector in the country; and (v) some asset quality issues at DIB. Although the outlook on the BFSR and BCA remains stable, the current deteriorating market conditions are putting increased pressure on DIB's standalone rating.

An upgrade in DIB's BFSR is likely to be dependent on the bank's capacity to book higher volumes while protecting its margins, as well as significant expansion and further diversification of the franchise in an increasingly competitive operating environment, while maintaining an acceptable risk profile. A BFSR upgrade could theoretically exert upward pressure on the GLC long-term issuer rating. However, this is an unlikely scenario in the medium term.

The BFSR could be downgraded in any of the following cases: (i) severe deterioration in earnings power and profitability; (ii) a sharp increase in problem assets; (iii) a significant increase in the bank's leverage; or (iv) a severe deterioration in the operating environment. A downgrade of the bank's GLC deposit ratings could also occur if (i) DIB's BFSR is downgraded, or (ii) the probability of systemic support decreases. Such scenarios of either the BFSR being lowered or our support assumptions being revised downward carry a significant likelihood in the medium term, except if systemic and liquidity risks in Dubai soften more quickly than expected.

DIB's global local currency (GLC) long-term issuer rating is now set at **Baa1**, a five-notch uplift from the bank's Ba3 BCA. This is based on Moody's assessment of a very high probability of systemic support in the event of need, reflecting the bank's government ownership and importance within the domestic banking system, as the country's premier Islamic bank. DIB's short-term issuer rating is now **Prime-2**.

Prior to 10 December 2009, DIB's GLC ratings used to be A1/Prime-1.

Group Structure

DIB was established in 1975 and is one of the oldest Islamic banks in the world. The bank's major shareholder is the government of Dubai, which holds a direct 30% stake in the bank as well as a 4% stake held through the Federal Government Pension Fund. The remaining shares are in the public domain. DIB's shares are listed on the Dubai Financial Market.

DIB is organised along five business divisions: (i) Retail Banking, (ii) Corporate Banking, (iii) Real Estate Finance and Direct Equity, (iv) Investment and International Banking, which comes under DIB Capital, and (v) Treasury.

Retail Banking: aiming to expand the branch network and introduce innovative products

Retail Banking, comprising individuals and small businesses, accounts for about one-third of revenues and 15%-20% of assets. The bank offers a complete range of Shari'ah-compliant products to its retail customers, serving them through a network of more than 40 branches in the UAE. The bank is focusing on expanding its depositor base by broadening the range of Shari'ah-compliant products. In addition, it intends to increase its revenue by focusing on low-cost liabilities and on higher-yield financing (such as auto and personal finance), aiming to capture an increasing share of the demand for Shari'ah-compliant products.

DIB aims to further expand its distribution capability by growing its branch network. In terms of deposit products, the bank offers current accounts (which are non-profit sharing), savings accounts (paying an end-of-the-period profit), and profit-sharing investment accounts (short-term and long-term). In terms of financing products, the bank offers mortgages, credit cards, auto finance and personal finance.

Corporate Banking: aiming to expand its customer base in targeted segments

Corporate Banking, accounting for 10%-15% of revenues and 20% of assets, focuses on servicing the top ten players in each market segment/industry, managing more than 300 relationships. The unit is segmented into large corporate, middle market corporate, public sector and GCC.

The main products are *Mudaraba* (partnership), *Murabaha* (asset finance), working capital finance, *Musharaka* (equity participation), *Istisna'a* (construction and manufacturing finance), *Ijara* (leasing) and *Murabaha* letters of credit (trade finance). The bank intends to grow its business with existing customers offering them non-funded products (such as cash management and treasury products) and new innovative Islamic products and structures. At the same time, through its strong expertise in investment banking, the bank aims to meet its customer investment banking needs in Shari'ah-compliant products and services.

Real Estate Finance and Direct Equity

DIB is a major player in real estate financing and services a number of real estate developments, both residential and commercial. In addition to a real estate financing portfolio in excess of AED5 billion, DIB has a real estate investment portfolio of about AED1 billion.

The bank offers: (i) *Istisna'a*, financing covering the construction of property, (ii) *Murabaha*, acquisition finance covering purchase of land/property, (iii) "diminishing *Musharaka*", cash-out financing where the bank purchases a share in a customer's existing property, with its share diminishing during the financing period, and (d) *Ijara*, lease financing covering the purchase of property that is then leased to the customer with the option to buy.

According to management, the following limits have been adopted for real estate financing: (i) maximum loan-to-value (LTV) of 75%, excluding land price, for construction projects; (ii) maximum LTV of 75% of existing properties; (iii) for land, a 50% maximum LTV; and (iv) debt service of less than 75% of net rental from property.

The Direct Equity department manages the bank's Shari'ah-compliant investments, established companies and business start-ups across the Middle East and North Africa region. Accordingly, returns are recognised through regular dividend payments and equity price appreciation realised at the sale of the stake.

We believe that the bank's relatively high exposure to the equity markets raises its market risk profile and makes its profitability vulnerable to any significant fluctuation in equity prices. However, we note that this is not atypical within GCC banking, where a number of banks have significant exposure to the GCC equity markets.

Investment and International Banking operate through DIB Capital, formerly known as Millennium Capital Holding

DIB's investment banking and international activities function under DIB CApital, a wholly owned subsidiary. DIB Capital is based at the Dubai International Finance Centre (a financial hub in Dubai, outside the jurisdiction of the Central Bank of the UAE) and is regulated and supervised by the Dubai Financial Services Authority. The investment banking division comprises the following units: (i) Capital Markets, (ii) Project Finance, Structured Finance and Syndications, and (iii) Asset Management. A pioneer in Islamic investment banking, DIB has been involved in a number of high-profile Islamic financing and sukuk transactions, including the first convertible sukuk, issued by Ports Customs & Free Zone Corporation (PCFC).

We expect DIB to remain a leading player in this field, supported by a strong team of highly experienced professionals with international investment banking experience. The international banking division, also under MCH, is responsible for managing the group's international operations. The bank's international strategy centres on expansion in selected markets with potential for Islamic banking. The bank has acquired a majority (60%) stake in Bank of Khartoum, the largest bank in Sudan. It has started operations in Pakistan, through DIB Pakistan Ltd, with a capital base of US$100 million, and plans to expand its current network of a dozen branches to more than 70 units within the next five years. Furthermore, the bank has representative offices in Turkey and Iran and is evaluating a number of proposals/opportunities for possible expansion in the GCC.

Treasury: deals with foreign exchange services, asset-liability management and Islamic derivatives

The remit of the Treasury division is to manage the balance sheet of the bank, while focusing closely on its liquidity and exposure to foreign exchange risks associated with the business. New Islamic derivative structures are being engineered by the bank, to enable clients to hedge their profit rate and foreign exchange risks, resulting in an additional revenue stream for the bank.

The bank also operates through a large network of business subsidiaries, associates (ranging from brokerage services and investment companies to real estate developers) and joint ventures, headquartered mainly in its home country.

Key Issues

» Year-end 2008 results indicate still satisfactory financial performance. With assets growing only 0.8% at AED85 billion, ROA remained strong at 2%, but declining compared to the three previous years, marking a point of inflexion in DIB's endeavor to join the league of best performing domestic banks. Such a performance in 2008 was reached at the expense of liquidity, with a material increase in loan leverage, as DIB played the volume game at a time when margins started to shrink.

» Such trends initiated in 2008 were confirmed in the first nine months of 2009, with further compressions in margins. However, given heightened credit risks, increasing delinquency rates and the property crash deepening, DIB curbed lending and thus could not action credit leverage to stabilize profits. The combination of far higher provision charges, lower property-related and investment gains, flat credit volumes and the necessity to protect asset liquidity drove profits down, with annualized ROA not exceeding 95 bp, and annualized ROE limited to 9.2%. Total assets grew only 3% compared to yearend 2008, at AED87.9 billion.

» On 10 December 2009, DIB's BFSR, BCA and GLC issuer ratings were downgraded. The downgrade reflected the weakening in Dubai's economy and the repercussions on the banks' asset quality and earning power. Exposure concentrations to the construction and property sector, as well as Dubai government-related entities, are significant and could entail material losses. The direct exposures to Dubai World are manageable given high capitalization levels. However, the negative investment sentiment that has been sparked by the restructuring announcements could have longer-lasting effects on Dubai's economy and could constrain the banks' ability to access debt capital markets in a cost-effective manner for longer than was previously expected. In this respect, we believe that going forward, managing liquidity will be a key focus, rather than loan growth, for the banks whose businesses are concentrated in the Dubai Emirate. This strategy, while necessary in the short term, could be detrimental to the banks' medium-term franchise value and growth prospects, relative to UAE banks that operate primarily in the Abu Dhabi Emirate. We also expect that the Dubai World standstill, and the risk of contagion, could erode private sector asset quality, which is already burdened by the property market meltdown in Dubai.

Analysis of Rating Considerations

Discussion of Qualitative Rating Drivers

Franchise Value

A leading Islamic banking institution with growing market shares

Moody's assessment of DIB's franchise value balances the following key factors:

» Its strong market position as the oldest and largest Islamic financial institution in the UAE;

» Its adequate operating diversification bringing balanced revenue streams across several profitable business lines; and

» The bank's still limited geographic diversification despite recent foray into a selected number of developing markets overseas.

Market Share and Sustainability

DIB is well-positioned to maintain or expand its market position despite mounting competition

Our assessment of DIB's franchise value takes into account its strong franchise as a leading Islamic financial institution. With total assets of AED82.9 billion (US$22.6 billion) at 30 September 2009, DIB is the largest Islamic bank in the UAE and one of the leading Islamic financial institutions internationally. Established in 1975 as the world's first Islamic bank, DIB is the fifth-largest bank in UAE in terms of assets (7% market share) and the third-largest in terms of deposits (7% market share). With the support of its controlling shareholder – the Dubai government – DIB underwent a major organisational transformation from 2003 to 2006. The result was the arrival of a proactive and hands-on board of directors, supported by an experienced management team. Visionary shareholders and seasoned managers have together placed the bank at the forefront of Islamic banking in the UAE and in the region.

As an Islamic bank, DIB operates under Shari'ah principles, which means that in its business transactions it cannot charge or pay interest. The Islamic banking industry has matured and to a large extent become part of mainstream finance, at least in the GCC at large and in the UAE in particular. However, Islamic banks do not yet have the capacity to compete on equal terms with their leading conventional peers in terms of operating flexibility, product innovation, technical sophistication and business entrenchment. In particular, the product range of Islamic banks is not as broad as that of conventional banks, and the availability of complex Shari'ah-compliant liquidity and hedging instruments/products is limited. Conversely, Islamic banking is gaining market share, hence its growth over the past decade has outpaced the already impressive development of conventional financial services in the region. Islamic finance is now better understood, more accepted, and in greater demand by the region's customers, especially in the retail segment, where unsurprisingly DIB is putting further emphasis.

In an increasingly competitive and fragmented banking environment in the UAE, DIB faces competition from both Islamic and conventional banks that offer Islamic products and services. Despite increasing competition, we believe that DIB is well-placed to maintain and even further expand its position given: (i) its strong brand as a leading Islamic institution; (ii) its broad and innovative product range; (iii) its highly experienced and dynamic management team; and (iv) the support of its main shareholder, the Dubai government.

Geographic Diversification

The international reach and spread of DIB's franchise remains limited

DIB's franchise value is limited by its relative lack of geographic diversification outside the UAE. Although the bank has established an international strategy focusing on expanding in selected markets with potential for Islamic banking, the contribution of overseas operations remains insignificant at this stage. However, we believe that as the contribution of these operations increases, leading to higher geographic diversification, DIB's franchise value will be strengthened further.

DIB's international strategy is centered on expansion in selected markets with potential for Islamic banking. The bank has acquired a majority (60%) stake in the Bank of Khartoum, the largest bank in Sudan. It has also started operations in Pakistan, through DIB Pakistan Ltd, with a capital base of US$100 million, and plans to expand its current network of six branches to more than 70 units within the next five years. Furthermore, the bank has representative offices in Turkey and Iran and is evaluating a number of proposals/opportunities for possible expansion in the GCC region, once dust settles. However, the contribution of overseas operations remains insignificant at this stage. Going forward, as the income generated from its foreign operations increases, DIB's overall franchise value assessment will be enhanced further.

Earnings Stability

Further foray into retail banking brings better granularity and income stability

DIB exhibits an acceptable level of revenue and earnings stability and diversification across its main business operations. The bank's retail banking, treasury and asset management activities, which Moody's considers to be relatively stable, contribute slightly more than half of the bank's total revenues with retail banking still constituting the dominant business stream (with about one-third of operating income).

Going forward, we consider the bank's main strategic initiatives to be moving in the right direction in order to further diversify its revenue streams both domestically and internationally, and defend its well-established retail position from increasing competition through product innovation. We believe that successful implementation of management's plans could exert positive pressure on the bank's overall franchise value.

Risk Positioning

Significant credit and funding concentration, as well as related-party exposures

Moody's assessment of DIB's risk positioning balances the following key factors:

» The bank's large related-party exposures;

» Concentration risks by name and sector, DIB's major rating concern;

» Adequate financial disclosure; and

» Satisfactory as well as improving risk management architecture and culture.

Corporate Governance

Significant related-party exposures, in line with other government-related banks in the UAE

In line with other government-related banks in the UAE, significant related-party exposures characterise DIB's corporate governance framework. Moody's notes that DIB's controlling shareholder

– the Dubai government, with two representatives on the board of directors – is also one of the bank's main borrowers, resulting in a high level of related-party exposure. However, the bank has at least two independent members on its board of directors, a factor that helps to bolster its corporate governance assessment. It also has a well-qualified and highly dedicated management team, enabling the bank to transform itself and bring itself back to the forefront of the banking industry.

Controls & Risk Management

Controls and risk management are satisfactory and continue to evolve

The bank's risk management infrastructure has been improving and its market risk appetite is relatively low, when direct and indirect exposures to the property market are not considered as part of market risk. We view Dubai's real estate sector as a source of risk: the sector is not only naturally versatile in all economies, especially in emerging markets, but also, in the case of Dubai, largely dependent on confidence and sentiment, driven by regional dynamics, and a function of the government's willingness and capacity to manage supply as opposed to demand. In the wake of such uncertainties related to lack of visibility, Moody's prefers to take a conservative view on banks' exposures to both real estate and property-related businesses.

DIB's risk management systems are adequate, while still evolving. While the systems and processes are being streamlined to align with the business risks encountered, there remains room for improvement. One of the issues being looked at is the appointment of a chief risk officer and an independent risk management framework and reporting line.

With the implementation of Basel II (standardised approach from January 2008, advancing to the establishment of an internal ratings-based (IRB) approach in 2011) and the 90-day benchmark to delineate non-performing loans from January 2008, the Central Bank of the UAE has imposed higher credit standards, with the latter expected to adversely affect asset quality at several banks.

Financial Reporting Transparency

Adequate financial disclosure

The bank reports under IFRS on a quarterly basis. Financial and management analysis provide some information regarding the bank's financial and business performance, with relatively adequate disclosures regarding risk-weighted assets and Tier 1 capital.

DIB reports its results under IFRS and in a timely manner. Moody's notes that, although the bank's annual report is adequate within the requirements of the local regulators and in line with other UAE banks' financial disclosure, it does omit important information such as problem loans, large credit exposures, borrower and depositor concentrations, risk-adjusted returns and risk-weighted assets, scenario analysis and risk management practices, among others.

Credit Risk Concentration

Significant credit concentration remains a major rating concern

In line with other government-related banks in the UAE, DIB has significant credit and funding concentration and a high level of related-party exposure, which constrains its risk factor score. Owned 30% by the Dubai government, DIB has significant financing transactions with government and/or government-related entities, while such institutions are among the bank's main depositors. Moody's notes that DIB's controlling shareholder – the Dubai government, with two representatives on the board of directors – is also one of the bank's main borrowers, resulting in a high level of related-party exposure, and therefore with a weak score for governance.

The bank's loan granularity reveals significant counterparty credit concentrations, which we view negatively, and which constrains its BFSR. The top 20 largest funded exposures typically exceed 200% of Tier 1 capital. We note that it is not atypical within the UAE and GCC banking sectors for a number of banks to have significant credit exposures, a combination of a narrow corporate base and the high involvement of GCC governments in the energy, infrastructure and other business sectors of the economy.

DIB's largest sectoral exposure is to real estate, which directly and indirectly accounts for about 20% of the bank's assets. We view positively the bank's effort to diversify its financing portfolio and to reduce the proportion of its financing channelled towards real estate. Nevertheless, the bank's real estate exposure, far exceeding Tier 1 capital (although incrementally decreasing as a proportion of equity), still represents a significant risk factor. Given that the real estate and construction sectors in Dubai have been going through some wide cycles, Moody's is concerned that the bank remains vulnerable to real estate price versatility.

Liquidity Management

Adherence to Islamic principles makes liquidity management a challenge for Islamic banks

Given the nature of their operations, Islamic banks are to a certain extent restricted in their ability to manage liquidity, unlike conventional banks. For instance, Islamic banks cannot utilise government securities and short-term interbank placements to manage their liquidity, due to the prohibition against charging interest.

In light of the short-term nature of its deposit base and the inability to utilise traditional money market instruments, DIB invests in international *murabaha* (short-term placements with highly rated international and increasingly regional banks). As of 30 September 2009, short-term international *murabaha* accounted for only 3% of total assets, compared with 21% at end-December 2007. That said, the bank's liquidity position is somewhat enhanced by additional placements in cash and with the central bank. Its liquidity ratio[1] totalled 14% at 30 September 2009, from 32% at YE2007. DIB has unutilised available financing lines with a number of institutions that it can access when needed as well as access to an interest-free overdraft facility from the Central Bank of the UAE, collateralised against the bank's reserves with the central bank. Another option open to the bank (although difficult to use under current difficult market conditions) is the securitisation of its real estate portfolio, which other non-bank Islamic financial institutions like Tamweel or Amlak have pursued.

Operating Environment

Challenging operating environment, with the UAE financial sector in a liquidity squeeze, in tandem with volatile oil and equity prices and a depressed property market

The financial sector has been growing by nearly 40% year-on-year since 2002. The returns available from the real estate market – reaching more than 80% in 2007, on average – have attracted an increasing number of local, GCC and international investors, increasing concentrations in the sector, as well as in services related to it. Dubai has been leading the way, with multi-billion-dollar projects in tourism and infrastructure including the tallest building in the world and the largest reclaimed islands,

[1] As per Moody's calculations, this is the ratio of core liquid assets (cash, placements with banks, international *Murabaha*) over total assets.

man-made port, airport, hotel and leisure parks (Dubailand leisure park planned to offer entertainment and hospitality on a site bigger than Singapore).

Oil prices are seesawing, raising concerns about an erosion of the double-digit fiscal surpluses

In our Credit Analysis on the UAE issued in December 2008, we forecast that the consolidated fiscal surplus in 2008 would reach 28% of GDP (slightly lower than the 29.7% in 2007, which was the highest ever). However, due to the projected volatility in oil revenues, we now project that this surplus will be an average of five percentage points lower in 2009. If the current situation persists and oil prices average around US$40/bbl during the whole of 2009, certain GCC countries will see their fiscal surpluses eroding sharply. However, the fiscal breakeven point of the Abu Dhabi government (which accounts for more than 90% of the UAE's oil resources) is estimated to be around US$30/bbl. Moody's assumes that the Abu Dhabi government stands fully behind the Federal Government.

The new realities, epitomised by the volatility of oil prices and the effects of the global credit crunch on the UAE, along with rising concerns about substantial concentrations in real estate and property investments with increased signs of a correction, are some of the most important drivers of the new paradigm for 2009-10, affecting consumers' confidence and the banking sector.

The liquidity crunch is expected to take a toll on asset growth, with rising borrowing costs

Up to 2007, the local currency peg to the falling US dollar contributed to a surge in loans and advances as a result of cheap credit, positive capital market expectations and an energetic property market. As a result of the global liquidity crunch since then, debt capital markets were severely disrupted. In addition, the outflow of speculative deposits which had brought the substantial credit growth, which stood at a compound annual growth rate of 37% over the past five years, to a standstill. The banks responded by significantly cutting down on new lending, focusing on servicing existing clients and funding their outstanding loan commitments, although decisive efforts have been made to renegotiate financing terms, increase lending rates and (if possible) reduce loan commitments.

Contingent liabilities have inflated (especially over the past three years), part of which constitutes irrevocable loan commitments. We estimate that around US$30 billion-US$40 billion of loan commitments will be due within the next 12 to 18 months.

The government's response to the liquidity crisis comprises three strategies: (i) the introduction of a three-year deposit guarantee covering domestic and foreign banks with significant operations in the UAE (although more details will be revealed as soon as the federal cabinet's decision to guarantee deposits is put into law); (ii) a direct deposit scheme worth AED70 billion (US$19 billion), through which the Ministry of Finance placed deposits with local banks for three-to-five years; and (iii) liquidity support facilities that were offered by the Central Bank, totalling AED50 billion (US$13.6 billion), although these have barely been utilised.

In response to the liquidity constraints, banks are keen to curtail future asset growth, which, along with rising borrowing costs, will likely take a toll on net interest income in 2009, affecting core profitability. Financial institutions are competing more vigorously to attract deposits in order to improve their rising net loans-to-deposits ratios, which are now well beyond 100% on average.

Regulation made more supportive to banks in order to cope with current credit turmoil

On 1 September, the Central Bank of the United Arab Emirates (CBUAE) announced that it is lowering the interest rate on the liquidity support facilities extended to the banks and clarified its position on minimum capitalisation targets (which shed light on the levels set by the Ministry of Finance earlier in the year). These measures are aimed at restarting bank lending in an economy that has come to a standstill following several years of rapid growth. Banks in the UAE, and particularly in shell-shocked Dubai, have been reluctant to lend despite supportive measures taken by the CBUAE.

We view these measures positively, as we believe that they will provide greater incentive to banks to extend lending to creditworthy borrowers. However, we will monitor the banks' new lending quality as well as possible weakening in capitalisation ratios. In our view, the capitalisation of UAE banks currently stands at adequate levels, and are higher than globally acceptable minimum requirements. Going forward, given the UAE banks' high industry correlation and borrower concentration, we would like to see their capitalisation levels remaining strong and higher than in other rapidly developing markets. Any material weakening in capitalisation levels could prompt rating reviews.

Following its announcement, CBUAE reduced the interest rate on its liquidity support facilities provided to the banks by 100 bps to 1.5%. These facilities were established in September 2008 to alleviate the liquidity crunch by allowing banks to repo eligible securities with the CBUAE.

We believe that the recent move of the CBUAE to encourage banks to make use of its liquidity support facilities aims to increase lending at a time when the economy is in a slowdown and there is sufficient liquidity at the central bank level to be used. In contrast, we observe that the banks have so far made very limited use of this facility, while they have been more eager to keep their funds in the interbank market benefiting from a high Emirates Interbank Offered Rate (EIBOR). The CBUAE announced on 27 August 2009 the initiation of a new procedure for calculating EIBOR that will most likely lead to a lower rate.

According to the latest banking indicators published by CBUAE, aggregate growth in net loans for the first seven months of 2009 was just 1.3%. This compared to an average compound annual growth rate of 37% for the last five years. Banks have significantly tightened credit standards and been mainly focused on servicing their existing clients. Although part of the tumbling in loan growth was due to the higher credit risk aversion, especially in 2009 following the severe property market collapse in the first two months of the year, much of it was also driven by tight liquidity as market funding remained disrupted and customer deposit levels had to be supported by sizeable injections of government funds.

In addition to the rate reduction, CBUAE clarified its position on the minimum capitalisation levels to be maintained by the banks. Confusion was created earlier in the year from the Ministry of Finance's requirements of 11% for Tier 1, which related to conditions attached to the funding support provided to banks. CBUAE has now mandated a 7% minimum Tier 1 level effective from 30 September 2009, increasing to 8% by end-June 2010.

We recently conducted a stress test on the UAE banks on the basis of their standalone fundamentals and current capitalisation levels, as of mid-year 2009. Their current capitalisation levels are considered appropriate for their risk profiles, but any material reduction would need to be reviewed.

Discussion of Quantitative Rating Drivers

Profitability

Adequate profitability underpins the BFSR

Boosted by wider profit margins and higher fee and commission income, DIB's core profitability (excluding extraordinary income streams) has been steadily increasing during the past five years, despite economic cyclicality and heightened provisioning charges. Furthermore, the bank's income diversification has been improving, with a reducing reliance on net financing income. To a large extent, these trends reflect higher fee and commission income derived from capital market activities, brokerage services, initial public offering-financing activities, but also investment banking and more value-added financing solutions provided to both corporate and retail clients. The benefits of an active foray into the retail banking arena are now materialising, with the combined advantage of relatively cheaper deposits and wider margins on asset allocation.

DIB's balance sheet declined by 2.5% during the nine months to 30 September 2009, in the wake of the global financial crisis. Aware of the necessity to protect its core franchise and brand name, DIB's management took the view of curbing risky lending, freezing asset growth and placing the property portfolio on run-off mode. The composition of DIB's assets has stabilized: net credit exposures continue to represent 61% of the balance sheet; on the contrary, liquidity and the bank's investment portfolio shrank. This reflects higher loan leverage, the price to pay to avoid an excessive drop in net margins. As a matter of fact, with funding costs jumping to 4%, and asset yields have also been adjusted upward to avoid margin compression. Contrary to some of its domestic and regional peers, DIB will probably not gain in strength via the systemic credit and liquidity pressures the UAE banking system is facing. On the contrary, given its large direct and indirect exposures to real estate and troubled borrowers, the bad publicity it suffered from the alleged wrongdoings of some of its former officers and its close ties with the increasingly leveraged government of Dubai, DIB will be likely to suffer from increasing competition and find it difficult to replicate past financial performance and growth rates going forward.

Liquidity

DIB enjoys a healthy liquidity profile underlined by a strong deposit base, satisfactory core liquidity levels and better funding diversification than peers

DIB enjoys a wide, stable and relatively affordable deposit base, although it exhibits some concentration, especially in the corporate funding pool. The remaining part of the deposit base, which is steadily increasing, is composed of more granular retail funds. While it ranks fifth in terms of assets, DIB has built up the third-largest deposit base in the country, benefiting from its profile as the world's first Islamic bank, its relationship with the Dubai government and its good product-innovation approach. The bank is a primarily deposit-funded institution: depositors' accounts totalled for 80% of total assets at 30 September 2009. That said, DIB has been an early issuer of sukuk, in order to promote greater diversification in its funding mix, manage increasing maturity mismatches and help to mitigate the concentration risks attached to its wholesale funding sources.

Given the nature of their operations, Islamic banks are restricted in their ability to manage their liquidity, unlike conventional banks. For example, Islamic banks cannot utilise government securities and short-term interbank placements to manage their liquidity, due to the prohibition against charging interest. In light of the short-term nature of its deposit base and the inability to utilise traditional money market instruments, DIB invests in international *murabaha* (placements with high-rated international banks). At 14% at30 September 2009, the ratio of core liquidity to total assets was satisfactory but far lower than before the crisis started: DIB had to use part of its core liquidity to remain in business and protect its profitability from erosion. Indeed, DIB took the tactical view of substituting excess liquidity into credit in order to respond to current pressure on margins. Otherwise, with a static asset allocation, DIB would have suffered both a margin compression and a balance sheet decline. Lower liquidity was the price to pay to protect returns in times of minimal asset growth. Loan leverage has increased, but not to a point at which we would consider it excessive. DIB's desire for yield, itself derived from a moderate appetite for risk, appears to be well balanced with the necessity to carry sufficient liquidity buffers on its balance sheet.

Capital Adequacy

Stabilizing capitalisation in the wake of frozen risk assets; strong financial flexibility

A sharp growth in balance sheet size up to 2007 resulted in a significant increase in leverage for DIB. However, in order to support the bank's robust expansion plans, management proceeded with an equity increase during 2006, raising its capitalisation to satisfactory levels. Since then, capital ratios have stabilized, as a result of the bank's decision to curb growth, drastically reduce exposures to the property sector, and let the riskiest portion of credit exposures mature. Therefore, risk assets have remained stable since early 2008, and pressure on capital has eased. In addition, Moody's remains confident that capital would be made available by shareholders if and when the need arises: DIB's financial flexibility is a key positive for the ratings.

Efficiency

Reasonably strong efficiency by international standards

Operating charges have remained under control, despite continued investments in personnel, infrastructure and technology. However, DIB's cost of risk has been materially increasing over the past three years, as delinquencies and subsequent write-offs have jumped. In 2007, such a phenomenon did not weigh on the bank's bottom line: indeed DIB's additional provision charges were buffered by large non-recurring gains. We do not expect future provisioning needs to materially deviate from the trends set over the past three years. DIB exhibits satisfactory efficiency levels with an average cost-to-income ratio of 35%-40% for the past three years. Although this ratio compares unfavourably with that of other banks in the UAE, DIB's efficiency levels are quite strong by international standards. Efficiency has not suffered in recent months, suggesting DIB's good capacity to adapt to more difficult market conditions.

Asset Quality

DIB's asset quality has incrementally deteriorated as Dubai's economy plunges into trouble

DIB exhibits increasing levels of non-performing exposures. Fast credit growth in the past five years, high exposure to the real estate market, significant counterparty concentration and poor transparency have all contributed to elevate the bank's credit risk profile, raising concerns regarding current and future credit quality and constraining its BFSR.

In particular, DIB has been struggling since the end of 2007 with one large defaulting exposure, partially provided for but against which collateral was seized, following a court decision in favour of the bank. In addition, DIB is one of the domestic banks most exposed to troubled companies of the Dubai Inc's universe, like Dubai World and its subsidiary Nakheel.

Overall, DIB still exhibits adequate credit quality indicators, but these are deteriorating. Asset quality data show a trend upward in the level of non-performing exposures. At 5.5% as of 31 December 2008 (but likely far higher at the end of 2009), DIB's ratio of non-performing exposures to total exposures remains above the average ratio of non-performing assets for rated UAE banks. In addition, coverage of non-performing assets by loan loss reserves is only adequate compared with that of peers, at 42% at year-end 2008. This is partly mitigated by the fact that DIB's collateralisation levels, as an Islamic bank, are high. This has been a buffer against the recent default of one large borrower in 2008, against which DIB managed to have access to collateral in the form of land and properties, following a court decision in favour of the bank.

Future profitability will likely suffer from the twin effect of i) higher provisioning needs to improve NPL coverage by loan-loss reserves; and ii) little signs of recoveries from previous delinquencies in the short to medium terms. In addition, as credit growth appears frozen in the foreseeable future, limited volume growth will not make it possible to absorb heightened risk charges, which ultimately will have to be covered by shareholders' funds, most likely in the form of a no-dividend policy.

Discussion of Support Considerations

DIB's deposit ratings benefit from a five-notch uplift, given the high probability of external support from the UAE authorities

Under Moody's Joint Default Analysis (JDA) methodology, DIB's GLC deposit rating of Baa1 receives a five-notch uplift from the Ba3 BCA (which is derived from the D- BFSR, see Exhibit). This reflects Moody's judgment that there is a high probability that the bank would receive systemic support from the UAE authorities in a period of financial distress. The UAE has a local deposit currency ceiling of Aa2.

We consider that the government would be very unlikely to ignore the needs of DIB in a period of severe financial test to its stability, given both its 30% stake in the institution and the bank's importance to the UAE commercial banking system and the Islamic banking industry. DIB, one of five banks in which the government of Dubai has a stake, is the third-largest bank in the UAE in terms of banking deposits, the fifth-largest bank in terms of assets and a leading Islamic banking institution, with a strong franchise and a recognised brand image.

Moody's views the UAE as a "high support" country. The government has stepped in on several occasions to assist banks and the banking system at times of crisis, irrespective of the size of the bank or its systemic importance. The Central Bank of the UAE has intervened to restructure banks, to ensure the stability of the system and the timely repayment of banks' deposits and senior obligations. To date, we believe that no depositor has lost money as a result of a UAE bank failing to meet its obligations. This view is shared by other observers of the UAE banking system over the years, even though the central bank does not articulate in its legal framework that it is the backstop, i.e. lender of last resort, for banks and the banking system.

Notching Considerations

The ratings for DIB's junior obligations should be notched down from the fully supported issuer rating, i.e. the GLC deposit rating, because there is no legal authority mechanism in place for the UAE regulators to impose losses on subordinated creditors outside of a liquidation scenario. Currently, Moody's does not rate any subordinated debt issued by the bank.

Discussion of Support Considerations

EXHIBIT [ ]:

Mapping the BFSR to the Baseline Credit Assessment (BCA)

The discussions of qualitative and quantitative rating drivers presented in this report forms the analytical basis for assigning a Bank Financial Strength Rating (BSFR) of "D-" to **Dubai Islamic Bank PJSC**.

BFSRs are Moody's opinions on the intrinsic safety and soundness of a bank enterprise and, in effect, address the susceptibility of a particular institution to financial distress.

The BFSR array of ratings is not on Moody's traditional rating scale (Aaa, Aa, etc.). There is a useful method, however, for translating BFSRs to Moody's traditional scale – the baseline credit assessment. In effect, the baseline credit assessment measures a bank's stand-alone default risk assuming there is no systemic or other external support.

Dubai Islamic Bank PJSC's "D-" BFSR maps to a baseline credit assessment of Ba3, yet, considering external support factors, its deposit ratings are Baa1.

BFSR/Baseline Risk Assessment Mapping for Dubai Islamic Bank PJSC

BFSR	BASELINE CREDIT ASSESSMENT (BCA)
A	Aaa
A-	Aa1
B+	Aa2
B	Aa3
B-	A1
C+	A2
C	A3
C-	Baa1
C-	Baa2
D+	Baa3
D+	Ba1
D	Ba2
D-	Ba3
E+	B1
E+	B2
E+	B3
E	Caa1
E	Caa2
E	Caa3

1. Please see "Incorporation of Joint Default Analysis into Moody's Bank Ratings: A Refined Methodology", March 2007.

Company Annual Statistics

Dubai Islamic Bank PJSC	09/30/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Summary Balance Sheet (AED millions)					
Cash & Central Bank	7,311	6,329	4,906	3,112	3,166
Due from Banks	2,273	3,482	17,475	15,398	6,487
Trading Securities	143	322	821	1,069	748
Available for sale securities	1,874	1,786	3,262	2,455	1,108
Other Liquid Assets	--	--	--	--	--
Islamic Financial Assets and Investments (Gross)	51,995	53,904	41,660	36,164	29,148
Impairment Reserves (LLR)	(1,627)	(1,245)	(1,125)	(881)	(842)
Net Islamic Financial Assets and Investments	50,368	52,659	40,535	35,283	28,306
Trading and investments properties	2,171	2,173	2,167	3,069	1,292
Equity in affiliates and participations	4,646	4,456	3,742	1,050	87
Fixed Assets	1,056	927	631	496	402
Inventories	--	--	--	--	--
Other Assets	13,073	12,898	10,822	2,502	1,403
Total Assets	82,915	85,031	84,360	64,434	42,998
Total Assets (USD millions)	22,570	23,143	22,960	17,538	11,708
Depositors Accounts	66,137	66,427	65,176	47,732	33,392
Due to Banks	1,467	3,331	2,241	4,650	4,099
Borrowings	--	--	--	--	--
Other Liabilities	5,956	7,380	7,926	4,403	2,266
Share of unrestricted investment account holder	--	--	--	--	--
Total Liabilities	73,561	77,138	75,343	56,786	39,757
Minority Interest	3	0	251	287	122
Shareholders' Equity	9,351	7,893	8,767	7,361	3,119
Total Capital Funds	9,355	7,893	9,017	7,648	3,241
Total Liabilities & Capital Funds	82,915	85,031	84,360	64,434	42,998
Derivatives - Notional Amount	--	--	--	--	--
Risk Weighted Assets (RWA)	--	--	--	--	--
Contingent Liabilities and commitments	15,641	22,059	18,584	13,261	9,087

Dubai Islamic Bank PJSC

	09/30/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Summary Income Statement (AED millions)					
Income from Islamic Financial Assets and Investments	3,011	4,022	3,881	2,815	1,930
Return paid on Depositors accounts	(1,320.6)	(1,876.2)	(2,395.1)	(1,757.6)	(918.4)
Net income from Islamic Financial Assets Investments	1,689.9	2,145.9	1,485.6	1,057.1	1,011.7
FX Income	72.7	119.9	93.7	36.9	15.9
Trading Income	--	--	--	--	--
Fees & Commissions	472.8	752.2	704.6	869.8	385.4
Property-Related Income	60.3	212.1	373.2	565.9	291.5
Other Operating Income	227.2	438.5	1,648.4	289.1	73.2
Operating Income	2,522.8	3,668.7	4,305.5	2,818.8	1,777.6
Personnel Expenses	--	(882.5)	(866.5)	(636.7)	(335.2)
Other Operating Expenses	(989.4)	(537.2)	(638.9)	(521.7)	(245.9)
Total operating expenses	(989.4)	(1,419.7)	(1,505.4)	(1,158.4)	(581.1)
Pre-provision Income (PPI)	1,533.4	2,249.0	2,800.1	1,660.4	1,196.6
Provisions for impairment reserves	(403.2)	(520.8)	(301.5)	(76.5)	(130.2)
Other Provisions	--	--	--	--	--
Pre-Tax (Pre-Zakat) Income	1,130	1,728	2,499	1,584	1,066
Taxes (Zakat)	(6)	2	14	(6)	(3)
Net income	1,124	1,730	2,513	1,578	1,063
Minority Interests	(3)	--	(12)	(18)	(2)
Net Income (Group share)	1,121	1,730	2,500	1,560	1,061
Dividends	(861)	(1,198)	(980)	(300)	(299)
Transfers to Capital Reserves	(260)	(532)	(1,520)	(1,260)	(762)
Other Adjustments	--	--	--	--	--
Summary Balance Sheet - Growth (%)					
Cash & Central Bank	15.52	29.01	57.65	-1.72	53.16
Due from Banks	-34.72	-80.08	13.49	137.38	-16.06
Trading Securities	-55.54	-60.76	-23.23	43.00	126.48
Available for sale securities	4.94	-45.25	32.88	121.53	20.73
Other Liquid Assets	--	--	--	--	--
Islamic Financial Assets and Investments (Gross)	-3.54	29.39	15.20	24.07	60.05
Impairment Reserves (LLR)	30.68	10.72	27.62	4.68	16.13
Net Islamic Financial Assets and Investments	-4.35	29.91	14.89	24.65	61.87
Trading and investments properties	-0.09	0.30	-29.39	137.44	-4.61

Dubai Islamic Bank PJSC

	09/30/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Equity in affiliates and participations	4.27	19.09	256.21	1,112.32	17.78
Fixed Assets	13.97	46.92	27.25	23.36	217.71
inventories	--	--	--	--	--
Other Assets	1.36	19.18	332.54	78.37	165.75
Total Assets	-2.49	0.80	30.92	49.85	40.46
Total Assets (USD millions)	-2.48	0.80	30.92	49.80	40.46
Depositors Accounts	-0.44	1.92	36.54	42.95	33.34
Due to Banks	-55.95	48.62	-51.80	13.43	194.25
Borrowings	--	--	--	--	--
Other Liabilities	-19.30	-6.88	79.99	94.31	52.17
Share of unrestricted investment account holder	--	--	--	--	--
Total Liabilities	-4.64	2.38	32.68	42.83	42.37
Minority Interest	2,790.00	-99.95	-12.64	136.01	--
Shareholders' Equity	18.48	-9.97	19.09	135.99	16.07
Total Capital Funds	18.52	-12.47	17.90	136.00	20.59
Total Liabilities & Capital Funds	-2.49	0.80	30.92	49.85	40.46
Derivatives - Notional Amount	--	--	--	--	--
Risk Weighted Assets (RWA)	--	--	--	--	--
Contingent Liabilities and commitments	-29.10	18.70	40.14	45.93	206.54
Summary Income Statement - Growth (%)					
Income from Islamic Financial Assets and Investments	49.70	3.65	37.87	45.84	64.82
Return paid on Depositors accounts	40.78	-21.66	36.27	91.38	64.95
Net income from Islamic Financial Assets and Investments	57.50	44.45	40.54	4.49	64.69
FX Income	21.23	27.92	154.03	131.66	-24.22
Trading Income	--	--	--	--	--
Fees & Commissions	25.71	6.76	-19.00	125.71	319.69
Property-Related Income	-43.18	-43.16	-34.06	94.12	62.86
Other Operating Income	3.63	-73.40	470.16	295.18	926.10
Operating Income	37.53	-14.79	52.74	58.57	94.65
Personnel Expenses	--	1.85	36.09	89.93	58.10
Other Operating Expenses	268.38	-15.92	22.46	112.20	62.31
Total operating expenses	39.39	-5.69	29.95	99.36	59.85
Pre-provision Income (PPI)	36.36	-19.68	68.64	38.77	117.66
Provisions for impairment reserves	54.85	72.76	294.25	-41.26	46.73

Dubai Islamic Bank PJSC

	09/30/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Other Provisions	--	--	--	--	--
Pre-Tax (Pre-Zakat) Income	30.80	-30.84	57.75	48.54	131.30
Taxes (Zakat)	-651.29	-84.91	-331.10	103.05	--
Net income	29.95	-31.14	59.26	48.38	130.65
Minority Interests	--	--	-30.14	670.07	--
Net Income (Group share)	29.57	-30.80	60.27	47.03	130.15
Balance Sheet - % of Total Assets					
Cash & Central Bank	8.82	7.44	5.82	4.83	7.36
Due from Banks	2.74	4.09	20.72	23.90	15.09
Trading Securities	0.17	0.38	0.97	1.66	1.74
Available for sale securities	2.26	2.10	3.87	3.81	2.58
Other Liquid Assets	--	--	--	--	--
Islamic financial assets and investments (Gross)	62.71	63.39	49.38	56.13	67.79
Impairment Reserves (LLR)	-1.96	-1.46	-1.33	-1.37	-1.96
Net Islamic Financial Assets and investments	60.75	61.93	48.05	54.76	65.83
Trading and investments properties	2.62	2.56	2.57	4.76	3.01
Equity in affiliates and participations	5.60	5.24	4.44	1.63	0.20
Fixed Assets	1.27	1.09	0.75	0.77	0.93
inventories	--	--	--	--	--
Other Assets	15.77	15.17	12.83	3.88	3.26
Depositors Accounts	79.77	78.12	77.26	74.08	77.66
Due to Banks	1.77	3.92	2.66	7.22	9.53
Borrowings	--	--	--	--	--
Other Liabilities	7.18	8.68	9.40	6.83	5.27
Share of unrestricted investment account holder	--	--	--	--	--
Total Liabilities	88.72	90.72	89.31	88.13	92.46
Minority Interest	0.00	0.00	0.30	0.45	0.28
Shareholders' Equity	11.28	9.28	10.39	11.42	7.25
Total Capital Funds	11.28	9.28	10.69	11.87	7.54
Income Statement - % of Average Assets					
Income from Islamic Financial Assets and Investments	7.17	4.75	5.22	5.24	5.24
Return paid on Depositors accounts	-3.15	-2.22	-3.22	-3.27	-2.50
Net income from Islamic Financial Assets and Investments	4.02	2.53	2.00	1.97	2.75

Dubai Islamic Bank PJSC

	09/30/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
FX Income	0.09	0.14	0.13	0.07	0.04
Trading Income	--	--	--	--	--
Fees & Commissions	1.13	0.89	0.95	1.62	1.05
Property-Related Income	0.07	0.25	0.50	1.05	0.79
Other Operating Income	0.54	0.52	2.22	0.54	0.20
Operating Income	6.01	4.33	5.79	5.25	4.83
Personnel Expenses	--	-1.04	-1.16	-1.19	-0.91
Other Operating Expenses	-2.36	-0.63	-0.86	-0.97	-0.67
Total Operating Expenses	-0.01	-1.68	-2.02	-2.16	-1.58
Pre-provision Income (PPI)	3.65	2.66	3.76	3.09	3.25
Provisions for impairment reserves	-0.96	-0.61	-0.41	-0.14	-0.35
Other Provisions	--	--	--	--	--
Pre-Tax (Pre-Zakat) Income	2.69	2.04	3.36	2.95	2.90
Taxes (Zakat)	-0.01	0.00	0.02	-0.01	-0.01
Net income	2.68	2.04	3.38	2.94	2.89
Minority Interests	-0.01	--	-0.02	-0.03	-0.01
Net Income (Group share)	2.67	2.04	3.36	2.90	2.88
Income Statement - % of Operating Income					
Income from Islamic Financial Assets and Investments	119.33	109.64	90.13	99.85	108.57
Return paid on Depositors accounts	-52.35	-51.14	-55.63	-62.35	-51.66
Net income from Islamic Financial Assets and Investments	66.98	58.49	34.50	37.50	56.91
FX Income	2.88	3.27	2.18	1.31	0.90
Trading Income	--	--	--	--	--
Fees & Commissions	18.74	20.50	16.36	30.86	21.68
Property-Related Income	2.39	5.78	8.67	20.08	16.40
Other Operating Income	9.01	11.95	38.29	10.26	4.12
Operating Income	100.00	100.00	100.00	100.00	100.00
Personnel Expenses	--	-24.06	-20.13	-22.59	-18.86
Other Operating Expenses	-39.22	-14.64	-14.84	-18.51	-13.83
Total Operating Expenses	-39.22	-38.70	-34.96	-41.10	-32.69
Pre-provision Income (PPI)	60.78	61.30	65.04	58.90	67.31
Provisions for impairment reserves	-15.98	-14.20	-7.00	-2.71	-7.32
Other Provisions	--	--	--	--	--
Pre-Tax (Pre-Zakat) Income	44.80	47.11	58.03	56.19	59.99
Taxes (Zakat)	-0.23	0.06	0.33	-0.22	-0.17
Net income	44.56	47.16	58.36	55.97	59.82

Dubai Islamic Bank PJSC

	09/30/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Minority Interests	-0.13	--	-0.29	-0.63	-0.13
Net Income (Group share)	44.43	47.16	58.07	55.35	59.69
Profitability Indicators					
Return on Average Assets (%)	2.68	2.04	3.36	2.90	2.88
Return on Shareholder's Equity - period end (%)	23.97	21.92	28.52	21.19	34.02
Recurring Earning Power 1	3.65	2.66	3.76	3.09	3.25
PPI (%) Avg Total Capital Funds	35.56	26.60	33.60	30.50	40.37
Return paid on depositors accounts (%) Income from Islamic Financial Assets and Investments	43.87	46.65	61.72	62.44	47.58
Income from Islamic Financial Assets and Investments (%) Net Islamic Financial Assets and Investments	11.95	7.64	9.57	7.98	6.82
Return paid on depositors accounts (%) Depositors accounts	3.99	2.82	3.67	3.68	2.75
Net Spread (%) 2	7.96	4.81	5.90	4.30	4.07
FX Income (%) Operating Income	2.88	3.27	2.18	1.31	0.90
Property-related income (%) Operating income	2.39	5.78	8.67	20.08	16.40
Other income (%) Operating Income	9.01	11.95	38.29	10.26	4.12
Efficiency Indicators					
Operating Expense (%) Avg Assets	1.18	1.68	2.02	2.16	1.58
Cost to Income Ratio (%) 3	39.22	38.70	34.96	41.10	32.69
Personnel Expenses (%) Avg Assets	--	1.04	1.16	1.19	0.91
Personnel Expenses (%) Operating Income	--	24.06	20.13	22.59	18.86
Personnel Expenses (%) Operating expenses	--	62.16	57.56	54.96	57.69
Liquidity Indicators					
Net Islamic financial assets and investments (%) Depositors Accounts	76.16	79.27	62.19	73.92	84.77
Net Islamic financial assets and investments (%) Total Deposits	74.50	75.49	60.13	67.36	75.50
Average Net Islamic financial assets and investments (%) Average Depositors accounts	77.72	70.81	67.15	78.38	78.37
Average Net Islamic financial assets and investments (%) Average Assets	61.34	55.02	50.95	59.19	62.21
Liquid Assets 4 (%) Total Assets	13.99	14.02	31.37	34.20	26.77
Depositors accounts (%) Total Deposits 5	97.83	95.22	96.68	91.12	89.07
Depositors accounts / Shareholders' Equity	7.07	8.42	7.43	6.48	10.71

Dubai Islamic Bank PJSC

	09/30/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Due from Banks (%) Due to Banks	154.87	104.52	779.69	331.16	158.24
Investment Portfolio Quality Indicators					
Impairment Reserves (%) Gross Islamic financial assets and investments	3.13	2.31	2.70	2.44	2.89
Provisions for impairment reserves (%) Preprovision Income	26.30	23.16	10.77	4.61	10.88
Provisions for impairment reserves (%) (Impairment Reserve - provision for impairment reserve)	98.26	71.90	36.62	9.50	18.29
Provisions for impairment reserves (%) Gross Islamic financial assets and investments	1.55	0.97	0.72	0.21	0.45
Pre-provision income (%) Net Islamic Financial assets and investments	6.09	4.27	6.91	4.71	4.23
Shareholders' Equity (%) Net Islamic financial assets and investments	18.57	14.99	21.63	20.86	11.02
Loans to Related Cos (%) Gross Islamic financial assets and investments	5.45	9.20	11.90	10.84	24.80
Problem Investments (%) Gross Islamic financial assets and investments	--	5.53	3.87	4.24	4.35
Capitalization Indicators					
Tier 1 ratio (%)	12.60	11.15	12.60	14.60	--
Shareholders' Equity (%) Total Assets	11.28	9.28	10.39	11.42	7.25
Shareholders' Equity (%) T. Assets + Contingent Liabilities	9.49	7.37	8.52	9.47	5.99
Total Capital funds (%) Total Assets	11.28	9.28	10.69	11.87	7.54
Total Capital (%) T. Assets + Contingent Liabilities	9.49	7.37	8.76	9.84	6.22
Shareholders' Equity (%) Total Capital funds	99.96	100.00	97.22	96.25	96.25
Contingent Liabilities (%) Total Assets	18.86	25.94	22.03	20.58	21.13
"Free" Capital 6 (%) Sharehoders' Equity	39.02	31.80	50.13	79.00	84.34
Dividend Payout (%) 7	76.77	69.26	39.19	19.23	28.20
Internal Capital Growth (%) 8	6.68	6.07	20.82	40.97	28.44

1. Recurring Earning Power = Preprovision Income (%) Average Total Assets
2. Net spread = Income from IFA&I (%) Net IFA&I - Return paid on depositors accounts (%) Depositors accounts
3. Cost to Income Ratio = Operating expense (%) Operating income
4. Liquid Assets = Cash & Central Bank + Due from Banks + Trading Securities + AFS Securities + Other Liquid Assets
5. Total deposits = Depositors accounts + Due to banks
6. Free Capital = Shareholders' Equity - Fixed Assets - Equity in Affiliates
7. Dividend Payout = Cash Dividends (%) Net Income
8. Internal Capital Growth = Current period's Net income - Current period's Dividends (%) Last period's Shareholders' Equity

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