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**Summary:**  
**Dubai Islamic Bank**

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## Summary:

# Dubai Islamic Bank

**Credit Rating:** A-/Negative/A-2

## Rationale

The ratings on Dubai Islamic Bank (DIB) reflect the bank's robust financial performance, adequate liquidity, and good capitalization. Partially offsetting these positive factors are DIB's high exposure to the domestic real estate sector, its rapid loan growth, and fierce competition in the bank's operating environment. The long-term rating on DIB is two notches above the bank's stand-alone creditworthiness to reflect Standard & Poor's Ratings Services' expectation of strong likelihood of support from the Emirate of Dubai (not rated), the bank's largest shareholder, in case of need. We classify DIB as a government-related entity (GRE) under our methodology.

With total assets of United Arab Emirates dirham (AED) 86.8 billion on Sept. 30, 2008, DIB controls a market share of about 10% of the UAE banking system's total deposits. The bank is heavily exposed to the real estate sector--its historical core competence--representing more than one-quarter of the bank's assets and 2.3x of adjusted total equity on Sept. 30, 2008. Standard & Poor's views this exposure as an important source of risk in light of the increasing probability of a sharp correction in the sector. Under such a scenario, DIB's asset quality would deteriorate rapidly and raise the bank's provisioning needs, ultimately impacting profitability. DIB's exposure to the stock market is another source of risk, in light of the sharp fall in the Dubai financial market in 2008. The bank has total exposure to the stock market of about AED6.0 billion, including equity in strategic subsidiaries.

On a positive note, DIB's funding profile appears adequate, with a ratio of loans to deposits of 78% on Sept. 30, 2008. Excess liquidity is placed in liquid instruments and local investment vehicles. DIB's capitalization is good given the bank's risk profile and dividend payouts are becoming more conservative.

## Outlook

The negative outlook reflects our expectation that DIB's asset quality and financial performance will deteriorate in line with the increasing pressure on the real estate sector.

We will lower the ratings if the bank's financial profile deteriorates significantly or links with the government of Dubai weaken.

On the other hand, we could raise the ratings or revise the outlook to stable if operating environment pressure eases, DIB demonstrates superior resilience to current market conditions, or if the bank improves its financial profile substantially.

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