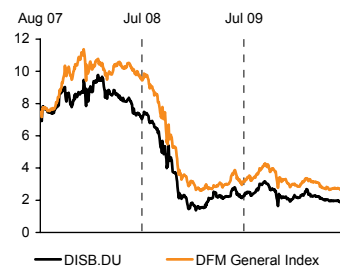


16 August 2010

HoldTarget price
Dh1.97Price
Dh1.87Short term (0-60 days)
n/aMarket view
No Weighting**Price performance**

	(1M)	(3M)	(12M)
Price (Dh)	1.97	2.24	2.43
Absolute (%)	-5.1	-16.5	-23.0
Rel market (%)	-3.1	-2.7	-2.1
Rel sector (%)	-3.0	-5.4	-13.7

Market capitalisation
Dh7.10bn (US\$1.92bn)Average (12M) daily turnover
Dh20.19m (US\$5.46m)RIC: DISB.DU, DIB UH
Priced Dh1.87 at close 12 Aug 2010.
Source: Bloomberg**Analyst**Raj Madha
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Dubai Islamic Bank

Shortfall on quality

Net attributable income for 2Q10 was ahead of our numbers, but revenues did not recover as strongly as expected, and goods costs and provisioning numbers were required to salvage the result. Pending further information on the sustainability of the different variances, we view the result as moderately weak.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Reported PTP (Dhm)	1,723	1,130	1,018	1,221	1,613
Reported net profit (Dhm)	1,730	1,207	1,022	1,225	1,617
Reported EPS (Dh)	0.42	0.28	0.24	0.28	0.37
Normalised EPS (Dh)	0.42	0.26	0.24	0.28	0.37
Dividend per share (Dh)	0.23	0.14	0.14	0.17	0.19
Normalised PE (x)	4.47	7.25	7.95	6.62	5.01
Price/book value (x)	0.88	0.84	0.82	0.79	0.75
Dividend yield (%)	12.1	7.58	7.6	8.95	9.91
Return on avg equity (%)	20	13.6	11.9	13.9	17.5

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

DIB reported overall slightly weak 2Q10 results

Headline and attributable income, at Dh301m, was 13% ahead of expectations, although comprehensive income at Dh145m was down 71% yoy, 47% qoq and 46% below our expectations. The main difference was the booking to income of historical revaluation gains and a cash flow hedging reserve. Broadly speaking, revenues underperformed forecasts by AED31m, although this weakness was offset by better-than-forecast deductions.

Balance sheet growth flat

Unsurprisingly to us, loans declined, although the 2% qoq reduction was slightly weaker than we had expected. However, the positive increase in liquidity, courtesy of the new Salam personal lending product, was definitely a surprise, suggesting to us a level of traction on raising retail deposits. Nevertheless, variances were small and are unlikely to indicate a further liquidity increase, although DIB should enjoy limited benefit from an LDR ratio of 77%.

Weak revenues, but costs declined 7% and provisioning rose just 1% qoq

Revenues of Dh761m in 2Q10 were up 4% qoq, but fell 4% short of our forecast of Dh792m. The main impact came from the continued decline in fees and commissions after adjusting for the Dh23m exceptional item. Spreads bounced back 23bp from weak 1Q10 levels to 3.81%, but net interest income, which rose 8% qoq, still fell 2% short of our expectation. Cost control was impressive, undershooting our forecasts by Dh26m, although we await confirmation that this is sustainable. Also, provisioning was Dh38m lower than we expected, although the absence of quarterly NPL numbers muddies any interpretation.

Overall, some disappointment likely

We see little indication of the quality or sustainability of the various variances, but overall we do not believe this was a particularly strong set of results compared to our forecasts. Nevertheless, the implications for our forecasts are likely to be minor.

Important disclosures can be found in the Disclosures Appendix.

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Table 1 : 2Q10 results summary

Dhm	2Q09A	1Q10A	2Q10A	2Q10F	Chg yoy	Chg qoq	Vs est
Balance sheet							
Loans & Islamic financing	50,727	51,016	50,032	50,953	-1%	-2%	-2%
Financial instruments	13,159	11,071	10,053	12,202	-24%	-9%	-18%
Total assets	87,865	84,971	83,804	84,180	-5%	-1%	0%
Customer deposits & Islamic funding	71,536	64,672	64,808	63,691	-9%	0%	2%
Capital market liabilities	2,450	6,135	6,110	6,135	149%	0%	0%
Total liabilities	78,971	76,258	74,944	75,195	-5%	-2%	0%
Net liquid assets	13,237	12,561	13,694	10,471			
Shareholders' equity	8,894	8,713	8,860	8,984	0%	2%	-1%
Income statement							
Net interest & Islamic returns	570	510	551	565	-3%	8%	-2%
Core non-interest	222	198	205	214	-8%	4%	-4%
Non-core non-interest	54	23	5	13	-91%	-79%	-62%
Total non-interest income	276	220	210	226	-24%	-5%	-7%
Total banking income	845	731	761	792	-10%	4%	-4%
Total operating expenses	(319)	(331)	(309)	(335)	-3%	-7%	-8%
Provisioning	(135)	(174)	(146)	(198)	8%	-16%	-26%
Profit before tax	459	202	304	269	-34%	51%	13%
Tax, minorities & appropriations	(9)	(2)	(2)	(2)	-75%	35%	1%
Attributable income	450	200	301	267	-33%	51%	13%
Headline net income	450	200	301	267	-33%	51%	13%
Comprehensive income	504	275	145	267	-71%	-47%	-46%

Source: Company data, Rasmala forecasts

Income statement

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net interest income	2146	2339	2231	2332	2387
Non-interest income	869.2	858.1	956.2	1098	1229
Total income	3015	3197	3187	3430	3616
Operating costs	-1368	-1343	-1352	-1446	-1525
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	-36.9	0.00	0.00	0.00	0.00
<u>Pre-prov operating profit</u>	1610	1854	1835	1984	2091
Provisions charges	-288.5	-741.0	-822.8	-806.8	-567.9
<u>Post-prov op prof</u>	1322	1113	1012	1177	1524
Associates (pre-tax)	401.0	17.3	5.61	43.9	89.6
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	1723	1130	1018	1221	1613
Taxation	-132.4	-146.3	-122.6	-147.1	-194.3
Minority interests	0.00	-4.79	-1.00	-1.20	-1.58
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	139.9	228.2	127.9	152.7	200.3
Reported net profit	1730	1207	1022	1225	1617
Tot normalised items	0.00	83.9	0.00	0.00	0.00
Normalised PTP	1723	1130	1018	1221	1613
Normalised net profit	1730	1124	1022	1225	1617

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net loans to customers	52659	49925	51063	53271	57857
Other int earn assets	14708	11848	12569	12814	12563
Goodwill	0.00	34.5	34.5	34.5	34.5
Oth non-int earn assets	8904	8343	9218	9056	9914
Total assets	85031	84304	83031	85740	91750
Total customer deposits	66427	64196	62807	64990	70007
Oth int-bearing liabs	6086	7617	7553	7602	7716
Non int-bearing liab	4453	4050	3975	4191	4533
Total liabilities	76966	75862	74335	76783	82256
Share capital	8065	8437	8690	8951	9488
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	8065	8437	8690	8951	9488
Minority interests	0.12	4.91	5.06	5.21	5.52
Total liab & sh equity	85031	84304	83031	85740	91750
Risk weighted assets	68916	68778	70345	73387	79705
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-1245	-1948	-2724	-3524	-4084
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

Capital

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Risk weighted assets	68916	68778	70345	73387	79705
Reported net profit	1730	1207	1022	1225	1617
Opening risk assets	51808	68916	68778	70345	73387
Closing risk assets	68916	68778	70345	73387	79705
Change in risk assets	17108	-137.9	1567	3042	6318
Capital required	1711	-13.8	188.1	365.0	758.2
Free capital flow	19.5	1221	833.8	860.4	859.3
Ordinary dividend paid	-860.5	-538.6	-539.7	-636.0	-704.2
Share buy back/spec div	0.00	-67.6	0.00	0.00	0.00
Equity / preference issue	14.8	5.44	0.00	0.00	0.00
Cash flow from financing	-845.8	-600.8	-539.7	-636.0	-704.2
Net capital flow	-826.2	620.5	294.1	224.4	155.1
Tier 1 capital	8626	8703	8860	9127	9677
Tier 1 capital ratio (%)	12.5	12.7	12.6	12.4	12.1

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Dubai Islamic Bank (RIC: DISB.DU, Rec: Hold, CP: Dh1.87, TP: Dh1.97): Upside risks to our GGM-derived valuation and target price include substantial improvement in performance of Dubai-based companies and a stabilisation of property prices in the Emirate. Downside risks, on the other hand, would be continuous deterioration in contribution from associates (primarily Deyaar) and subsidiaries.

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