



IIRA upgrades the Credit Ratings of Dubai Islamic Bank

Manama, August 24, 2021– Following a ‘positive’ outlook assessed in December 2019 and reconfirmed in January 2021, Islamic International Rating Agency (“IIRA”) has upgraded the international scale ratings assigned to Dubai Islamic Bank (“DIB” or “the Bank”) to A+/A1 (Single A Plus / A One) from A/A1 (Single A / A One) and national scale ratings to AA(ae)/A1+(ae) (Double A / A One Plus) from AA-(ae)/A1+(ae) (Double A Minus / A One Plus). Outlook on the ratings is now ‘Stable’.

Rating upgrade reflects the now complete integration with Noor Bank, hence enhancing the Bank’s market share to 9.1%, up from 7.5% in 2019, in addition to strong organic asset growth, asset quality having largely held up despite the pressures posed by the pandemic, and better than peers’ profitability indicators. The banking sector weathered the double crisis of oil price shock and economic slide better than expected in the year 2020, with proactive and strong support provided by the regulatory authorities. Higher impairment ratios were manageable, and capital buffers held up, whereas the pressure on liquidity was also mitigated with specific measures taken by the Central Bank of UAE. The relatively high exposure to real estate, remain a key risk factor on a sector wide basis. Recent increase in oil prices, very high vaccination rates, and upcoming EXPO are expected to result in better outlook for the sector vis-à-vis 2020 and is reflected in improving business sentiment in the country.

DIB’s asset quality indicators continued to fare better vis-à-vis the sector at large and does not pose particular risk when viewed in relation to loss buffers available, despite the recent adverse trends. Going forward, asset and financing portfolio growth could lead to lower impairment levels (denominator effect) which could be amplified by a recent focus shift on sovereign and hence less risky exposures. The Bank’s funding base is also diversified and cost effective, given a strong retail franchise. At the end of HY’21, Liquidity Coverage Ratio (“LCR”) at 152%, indicate strong liquidity buffers. We have noted moderate decline in CAR and tier1 ratios following the redemption of tier1 sukuk in Q1’21, however, CET1 ratio widened by 30bps in the HY’21, owing to internal capital generation and reduced credit risk density of assets, as government exposures increased. Capital buffers are deemed sufficient in relation to expected growth in risk in the medium term.

In line with sector wide trends, DIB’s net earnings dropped notably in 2020. The weaker profitability was mainly due to narrowing of banking margins, coupled with increasing impairment charges and higher operating expenses which partly stemmed from integration costs with Noor Bank. In Q1’2021, DIB booked AED853mn net income implying 23% YoY decline, however, disregarding the AED1,015mn non-recurring gain on bargain purchase booked following the acquisition of Noor in Q1’20, we note that there was notable improvement in core profit on a YoY basis. For the full year 2021, earnings are expected to improve with relatively lower provision charges and efficiency gains expected; margins are likely to be broadly stable over last year.

IIRA affirmed DIB’s fiduciary score within the ‘76 – 80’ band denoting strong fiduciary standards whereby rights of various stakeholders are well defined and protected. There was no major change in



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terms of board or its committee composition, since our prior review. However, driven also by the CBUAE's continued efforts to improve control functions in the sector, we note the further positive developments within risk management, compliance and internal audit functions mainly relating to integration of group-wide practices. Revamping of the compliance function and strengthening of its headcount, and a more coordinated approach to internal audit have also been noted. On the Sharia Governance front, we note that the Bank revised its Charter for Internal Shari'a Supervisory Committee ("ISSC"), as assessment criteria for ISSC members was developed, group-wide interaction on Sharia aspects improved, and the communication between ISSC and Board upscaled through regular meetings.

For further information on this rating announcement, please email at iira@iirating.com.