IIRA Reaffirms Dubai Islamic Bank's ratings while upgrading Sharia Governance Score

Manama, December 28, 2023 – Islamic International Rating Agency ("IIRA") has maintained the international scale ratings assigned to Dubai Islamic Bank ("DIB" or "the Bank") at A+/A1 (Single A Plus / A One) and national scale ratings at AA(ae)/A1+(ae) (Double A / A One Plus). Outlook on the ratings is 'Stable'.

Macroeconomic environment has been conducive with strong GDP growth in UAE, supported by increase in non-oil trade, favorable trends in real estate sector, and uplift in tourism. Outlook for the year 2024 is positive with robust growth anticipated in both oil and non-oil GDP. Banking sector indicators reflect the underlying economic trends translating into steady asset growth and lower impairments, and higher margins supporting profitability and hence capital buffers of the banking sector. On the sustainability front, initiatives have accelerated within the context of COP28 whereby the Central Bank of the United Arab Emirates (CBUAE), and the Higher Shari'a Authority, have issued guiding principles on sustainable Islamic finance in November 2023 and the banking sector announced a landmark commitment to collectively mobilise over AED1trn in sustainable finance by 2030.Within its Strategy 2022 – 2026, the Bank has been reinforcing its control functions both in terms of headcount and technological resources, increasing oversight of its subsidiaries and affiliates, enhancing operational efficiencies with a robust digital drive, accelerating ESG initiatives, and growth - both geographically and an expanding target customer segments. A recent announcement of an acquisition for 20% minority stake in the T.O.M. Group of Turkiye, which is an integrated comprehensive financial services group established in the digital space.

Business growth in assets and financing exposures was comfortably above its full year guidance as of September 2023, with expansion in both corporate and retail sectors. On a positive note, real estate sector concentration has been falling. Non-performance indicators also maintained downtrend during 2022 and so far in 2023 with both lower impairment ratios and higher provision cover. Favorable macroeconomic trends are likely to benefit asset quality prospects, in addition to the bank's relatively conservative approach to growth in credit portfolio in the last couple of years. Meanwhile, a stringent provision policy backed by steady profit generation would eenhance the provision coverage further and reduce net impairment levels over time. On the downside, the introduction of corporate tax, effective for financial years starting on or after June 2023 would pose risks particularly for the private sector and hence imply a higher credit risk environment whereas the 'higher for longer' rate environment elevates risks for both corporate and retail clients. Overall, IIRA does not expect a significant increase in the credit risks for the next 18-month period.

In a higher rate environment, the deposit base of the Bank shows a relative shift into investment deposits. Liquidity indicators have held up with an LCR of 166% and NSFR at 106%. A strong franchise has enabled a diversified deposit base, sustained market share, and well-established access to capital markets.

Strong profitability has led to high internal capital generation. As such, the Bank's capital buffers continued sustained upward trajectory, despite the higher cash dividend payout to shareholders and higher growth in risk weighted assets. CAR and CET-1 ratio stood at 18.1% and 13.6% as of September 2023 which signifies adequate cushions for the medium term.

After achieving strong increase in profitability on the back of wider margins during 2022, the Bank maintained positive momentum in profitability so far 2023 with more modest expansion in margins coupled with stronger growth in business assets, healthy increase in fee & commissions income, and lower impairment charges. Outlook for 2024 will be shaped by broadly stable margins, higher volume of business, and introduction of corporate tax.

IIRA maintained the Bank's overall fiduciary score in the range of "81 – 85" while notching up the Shari'ah Governance subscore to '81-85' from '76-80' reflective of strong fiduciary standards. Two new board members one of whom is a female member were inducted in the ongoing year and brought gender diversity to the Board. Meanwhile, two new board level committees, Board Profit Distribution & Management Committee and Board Sustainability Committee commenced their functions this year, to supervise profit equalization & ESG implementation as per regulatory directives. The Shari'a Governance Framework remained broadly unchanged with a stable ISSC.

As per its 2022-2026 strategy, the Bank continued to strengthen its control functions and disclosures improved further. On the environmental front, Dubai Islamic Bank published its Sustainable Finance Framework, instituted a Chief Sustainability Officer, and has issued two sustainable sukuk amounting USD1.75bn in the last 12-month period. Meanwhile, growth continues in the sustainable business space.

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