FitchRatings

Banks
Islamic Banks
United Arab Emirates

Dubai Islamic Bank (Public Joint Stock Company)

Update

Key Rating Drivers

Dubai Islamic Bank (Public Joint Stock Company)'s (DIB) Issuer Default Ratings (IDRs) are driven by potential support from United Arab Emirates (UAE, AA-/Stable) authorities, if needed, as reflected in its Government Support Rating (GSR). The GSR reflects the authorities' strong ability to, and record of, supporting the banking system. It is at the level of the UAE domestic systemically important banks' GSRs due to DIB's high systemic importance in the UAE.

The Viability Rating (VR) reflects improved asset quality metrics, but still-high concentration risk, in light of which capitalisation is only adequate. It also reflects DIB's solid domestic franchise, healthy profitability and sound funding and liquidity. The VR is one notch below the 'bbb-' implied VR due to an asset quality adjustment.

Favourable Environment: Operating conditions have been solid for UAE banks in recent years, and Fitch Ratings expects these to remain strong in the medium term. The operating environment is supported by high interest rates and healthy liquidity conditions due to population growth and money transfers into the UAE. The sector's solid average financial metrics will largely be sustained in 2024.

Solid Domestic Islamic Bank: DIB is the fourth-largest bank in the UAE and the largest Islamic bank, accounting for 8% of total sector assets at end-1Q24. It offers a full range of banking products and services.

High Concentration Risk: DIB has a high exposure to the real-estate sector (end-1Q24: 18% of financing), above the sector average, which we estimate at 15%. Consumer financing comprised 28% of total financing, of which around 38% is to UAE nationals, and for unsecured financing, is backed by salary assignments, mitigating credit risk to a certain extent. Single-obligor concentration remains high, but is similar to that of peers. The 20-largest funded exposures comprised 31% of gross financing at end-1Q24.

Improved Impaired Financing Ratio: The impaired financing ratio improved to 5.1% by end-1Q24 (end-2023: 5.5%), supported by write-offs (9% of end-2023 impaired financing) and limited impaired financing origination, and is now in line with the sector average. Coverage of impaired financing by total provisions remains weak at 78% (Fitch-rated bank average: 98%), reflecting reliance on collateral.

Good Profitability: DIB's operating profit/risk-weighted assets (RWAs) ratio increased to 3.0% in 1Q24 (2023: 2.9%), driven by growth in fees and commissions (34% annualised) and moderated impairment charges (14% of pre-impairment operating profit). Profitability is also supported by the bank's stable financing margin through the cycle (1Q24: 3.0%; 2023: 3.3%), reflecting its significant share of current account savings account (CASA) deposits.

Only Adequate Capitalisation: The increase in DIB's common equity Tier 1 ratio (end-1Q24: 13.1%; end-2023: 12.8%) was supported by internal capital generation and muted financing growth (0.4%). Capitalisation is only adequate, given high concentration and asset-quality risks, as well as generally weaker reserve coverage of impaired financing than at peers.

Sound Funding and Liquidity: DIB's funding profile is steady, with customer deposits comprising 85% of total non-equity funding at end-1Q24, of which 38% consisted of CASAs. Deposit concentration largely relates to government-related entities, where balances have been stable, and remains high, albeit below that of peers, given DIB's strong retail franchise.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Long-Term IDR (xgs)	BB+(xgs)
Short-Term IDR (xgs)	B(xgs)
Viability Rating	bb+
Government Support Rating	a

Sovereign Risk (United Arab Emirates)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AA+

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Sukuk Rating Criteria (June 2022)

Related Research

Fitch Affirms the United Arab Emirates at 'AA-'; Outlook Stable (June 2024)

UAE Banks – Peer Review 2024 (February 2024)

EM100 Banks Tracker - End-2023 (June 2024)

EMEA Islamic Banks Outlook 2024 (December 2023)

Middle East Banks Outlook 2024 (December 2023)

Middle East Banks: Where Are Banks in the Cycle (June 2024)

Fitch Affirms Dubai Islamic Bank at 'A'; Outlook Stable (October 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

DIB's Long-Term IDR would be downgraded following a downgrade of its GSR. The latter would likely stem from either a weaker ability of the sovereign to support the bank, which would be reflected in a UAE sovereign downgrade, or a weaker propensity to support banks.

A material deteriorating in DIB's asset quality metrics, affecting the bank's capitalisation or profitability, would likely lead to a downgrade of the VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of DIB's Long-Term IDR could come from an upgrade of its GSR. The latter would likely stem from a stronger ability of the UAE authorities to provide support, as reflected in a UAE sovereign upgrade, although this is unlikely in the near term, given the Stable Outlook. An upgrade of the GSR is also unlikely given its already high level.

An upgrade of DIB's VR could come from a track record of sound, improved asset quality (with the impaired financing ratio sustainably below 4%), and a reduction in single-name and sector concentrations.

Other Debt and Issuer Ratings

Debt Rating Classes

DIB Sukuk Limited	
Senior unsecured: long-term	A
Senior unsecured: long-term (xgs)	BB+(xgs)

Source: Fitch Ratings

The ratings of DIB's senior unsecured sukuk programme, housed under a special-purpose vehicle, DIB Sukuk Limited, are in line with the bank's Long-Term IDR and Long-Term IDR (xgs), because Fitch views the likelihood of default on any senior unsecured obligation as the same as that of the bank.

DIB's Short-Term IDR of 'F1' is the lower of the two options corresponding to an 'A' Long-Term IDR, as described in Fitch's Rating Definitions. This is because a large proportion of UAE banking sector funding relates to the government and, therefore, stress on DIB would likely come at a time when the sovereign itself is experiencing some form of stress.

DIB's Long-Term IDR (xgs) is driven by its VR, and its Short-Term IDR (xgs) is driven by its Long-Term IDR (xgs).

Significant Changes from Last Review

Strong Operating Conditions to Be Sustained in the Medium Term

UAE banks are benefitting from strong operating conditions, supported by high oil prices, contained inflation and high interest rates. Their financial metrics were strong in 2023–1Q24 and Fitch expects these to be largely sustained in 2024. Banks' operating conditions were supported by high oil prices (2023: USD82/barrel; 2024F: USD80/barrel) and higher interest rates.

We forecast the UAE's real GDP growth to slow to 3.1% in 2024 (2023: 3.6%) and pick up to 4.9% in 2025. We expect non-oil growth (2024: 4.3%) to slow to 3.4% in 2025, but to remain fairly robust despite global macroeconomic challenges, supported by government and GRE spending, a strong real estate sector, strong population growth and GCC demand.

The operating environment is also supported by higher interest rates and healthy liquidity conditions due to population growth and money transfers in the UAE. Most UAE banks are well-positioned for higher interest rates and earning asset yields increased more than funding costs in 2022 and 2023, due to banks' high shares of cheap current and savings accounts. We expect UAE banks' financial metrics (asset quality, performance, capitalisation and profitability) to be stable in 2024.

Banks in the UAE reported their historically strongest profits in 2023 and 1Q24, as healthy liquidity in the banking sector benefitted from relocations and fund transfers to the UAE in 2022 and 2023. In combination with a high proportion of floating-rate assets in banks' asset mixes, the sector average net interest margin has improved by about 100bp since 2021 (1Q24: 3.1%). Our base case interest rate trajectory shows reductions from 2H24, and for the sector average net interest margin to reduce slightly in 2025.

Ratings Navigator

Dubai Islamic Bank (Public Joint Stock Company)

ESG Relevance:

Banks
Ratings Navigator

	Operating Environment	Business Profile 20%	Risk Profile 10%	Financial Profile: Asset Quality 20%	Financial Profile: Earnings & Profitability 15%	Financial Profile: Capitalisation & Leverage 25%	Financial Profile: Funding & Liquidity 10%	Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
aaa								aaa	aaa	aaa	AAA
aa+								aa+	aa+	aa+	AA+
aa								aa	aa	aa	AA
aa-								aa-	aa-	aa-	AA-
a+								a+	a+	a+	A+
a								a	a	a	A Sta
a-								a-	a-	a-	A-
bbb+								bbb+	bbb+	bbb+	BBB+
bbb								bbb	bbb	bbb	BBB
bbb-								bbb-	bbb-	bbb-	BBB-
bb+								bb+	bb+	bb+	BB+
bb								bb	bb	bb	BB
bb-								bb-	bb-	bb-	BB-
b+								b+	b+	b+	B+
b								b	b	b	B
b-								b-	b-	b-	B-
ccc+								ccc+	ccc+	ccc+	CCC+
ccc								ccc	ccc	ccc	CCC
ccc-								ccc-	ccc-	ccc-	CCC-
cc								cc	cc	cc	CC
c								c	c	c	C
f								f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'bbb' has been assigned below the implied category score of 'aa' due to the following adjustment reasons: size and structure of economy (negative), financial market development (negative), and regulatory and legal framework (negative).

The capitalisation & leverage score of 'bb+' has been assigned below the implied category score of 'bbb' due to the following adjustment reason: reserve coverage and asset valuation (negative).

Financials

Financial Statements

	31 Mar 2024		31 Dec 2023	31 Dec 2022	31 Dec 2021
	3 months - 1st quarter (USDm) Reviewed - unqualified	3 months - 1st quarter (AEDm) Reviewed - unqualified	Year end (AEDm) Audited - unqualified	Year end (AEDm) Audited - unqualified	Year end (AEDm) Audited - unqualified
Summary income statement					
Net financing & dividend income	587	2,154.6	8,780.1	8,160.6	6,659.9
Net fees and commissions	132	483.3	1,440.6	1,253.0	1,279.2
Other operating income	98	360.3	1,444.2	1,056.0	1,469.0
Total operating income	816	2,998.2	11,664.9	10,469.6	9,408.1
Operating costs	231	849.1	3,161.5	2,733.1	2,583.3
Pre-impairment operating profit	585	2,149.1	8,503.4	7,736.5	6,824.8
Financing & other impairment charges	81	298.6	1,395.8	2,102.9	2,394.0
Operating profit	504	1,850.5	7,107.6	5,633.6	4,430.8
Other non-operating items (net)	n.a.	n.a.	0.0	-2.5	13.3
Tax	51	186.1	97.6	79.3	38.1
Net income	453	1,664.4	7,010.0	5,551.8	4,406.0
Other comprehensive income	-16	-57.0	-459.2	-376.5	-7.2
Fitch comprehensive income	438	1,607.4	6,550.8	5,175.3	4,398.8
Summary balance sheet					
Assets					
Gross financing	56,965	209,202.4	208,355.9	194,835.5	195,616.6
- o/w impaired	2,892	10,620.0	11,496.7	12,985.8	13,783.8
Financing loss allowances	2,253	8,275.3	8,902.6	8,792.9	8,926.0
Net financing	54,711	200,927.1	199,453.3	186,042.6	186,690.6
Interbank	1,129	4,147.7	4,483.7	4,606.9	3,303.4
Islamic derivatives	279	1,023.7	1,171.5	1,830.8	1,498.2
Other securities and earning assets	23,290	85,531.8	78,125.8	61,952.0	52,039.2
Total earning assets	79,409	291,630.3	283,234.3	254,432.3	243,531.4
Cash and due from banks	7,635	28,038.0	24,019.5	26,489.1	28,079.7
Other assets	2,082	7,645.9	7,037.7	7,317.1	7,470.5
Total assets	89,126	327,314.2	314,291.5	288,238.5	279,081.6
Liabilities					
Customer deposits	64,202	235,783.3	222,054.2	198,636.9	205,845.1
Interbank and other short-term funding	2,729	10,021.1	12,967.0	12,809.5	2,583.7
Other long-term funding	6,578	24,157.8	20,481.0	22,339.7	20,562.7
Trading liabilities and Islamic derivatives	268	984.1	1,057.4	1,578.1	1,422.0
Total funding and Islamic derivatives	73,777	270,946.3	256,559.6	235,364.2	230,413.5
Other liabilities	2,903	10,661.5	10,297.8	8,899.3	7,203.5
Preference shares and hybrid capital	2,250	8,264.3	8,264.3	8,264.3	8,264.3
Total equity	10,195	37,442.1	39,169.8	35,710.7	33,200.3
Total liabilities and equity	89,126	327,314.2	314,291.5	288,238.5	279,081.6
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions, DIB

Key Ratios

	31 Mar 2024	31 Dec 2023	31 Dec 2022	31 Dec 2021
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.0	2.9	2.4	1.9
Net financing income/average earning assets	3.0	3.3	3.3	2.7
Non-financing expense/gross revenue	29.4	27.6	26.4	27.8
Net Income/average equity	17.5	19.1	16.3	13.9
Asset quality				
Impaired financing ratio	5.1	5.5	6.7	7.1
Growth in gross financing	0.4	6.9	-0.4	-4.6
Financing loss allowances/impaired financing	77.9	77.4	67.7	64.8
Financing impairment charges/average gross financing	0.5	0.7	0.7	1.0
Capitalisation				
Common equity Tier 1 ratio	13.1	12.8	12.9	12.4
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	14.4
Tangible common equity/tangible assets	11.4	12.4	12.4	11.8
Basel leverage ratio	12.0	12.1	n.a.	12.5
Net impaired financing/common equity Tier 1	7.1	8.2	14.1	17.2
Net impaired financing/Fitch Core Capital	n.a.	n.a.	n.a.	14.7
Funding & liquidity				
Gross financing/customer deposits	88.7	93.8	98.1	95.0
Gross Financing/customer deposits + covered securities	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	176.8	187.2	150.0	158.2
Customer deposits/total non-equity funding	84.8	84.2	82.1	86.8
Net stable funding ratio	106.2	105.7	106.0	102.1

Source: Fitch Ratings, Fitch Solutions, DIB

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a or a-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	a
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Positive
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

DIB's GSR reflects an extremely high probability of support available to the bank from the UAE authorities, if needed. Fitch's assessment of potential state support, if needed, factors in the sovereign's strong ability to support the banking system, underpinned by its solid net external asset position, still-strong fiscal metrics and recurring hydrocarbon revenues.

Fitch expects the UAE authorities' propensity to support the banking sector to remain high given its very strong, timely and predictable record of supporting domestic banks. This view also reflects the sovereign's close ties with, and part government ownership of, a number of banks.

DIB's GSR is at the UAE domestic systemically important banks' GSR of 'a', reflecting the bank's systemic importance in the UAE, particularly in Dubai.

Environmental, Social and Governance Considerations

FitchRatings

Dubai Islamic Bank (Public Joint Stock Company)

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Dubai Islamic Bank (Public Joint Stock Company) has 1 ESG rating driver and 5 ESG potential rating drivers

- Dubai Islamic Bank (Public Joint Stock Company) has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating.
- Dubai Islamic Bank (Public Joint Stock Company) has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Dubai Islamic Bank (Public Joint Stock Company) has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices but this has very low impact on the rating.
- Dubai Islamic Bank (Public Joint Stock Company) has exposure to operational implementation of strategy but this has very low impact on the rating.
- Dubai Islamic Bank (Public Joint Stock Company) has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.
- Dubai Islamic Bank (Public Joint Stock Company) has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	1	issues	4
potential driver	5	issues	3
not a rating driver	3	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	4	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

As an Islamic bank, DIB needs to ensure compliance of its entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audit. This results in a Governance Structure relevant score of '4' for the bank, which has a negative impact on the bank's credit profile and is relevant to the rating in combination with other factors.

In addition, Islamic banks have an ESG Relevance Score of '3' for Exposure to Social Impacts, above sector guidance for an ESG Relevance Score of '2' for comparable conventional bank. This reflects that Islamic banks have certain sharia limitations embedded in their operations and obligations, although this only has a minimal credit impact on the entities.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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