FitchRatings

Dubai Islamic Bank (Public Joint Stock Company)

Key Rating Drivers

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

DIB's Viability Rating (VR) reflects the bank's improved asset-quality metrics, healthy profitability, sound funding and liquidity and solid business profile. The VR also considers the bank's fairly high concentration, in light of which we view capitalisation as moderate.

Improved Operating Conditions: Operating conditions are solid for UAE banks in 2024. Most major UAE banks reported their historically strongest semi-annual earnings in 1H24. Operating conditions are supported by high oil prices, recovered economic activity, continuing diversification of the economy and strong growth. The UAE's domestic bank operating environment score was recently upgraded to 'bbb+', which is now among the highest operating environment scores for emerging-market banking systems globally.

Solid Domestic Islamic Franchise: DIB is the fourth-largest bank in the UAE and the largest Islamic bank, comprising 8% of total sector assets at end-1H24. It offers a full range of banking products and services to retail, SME, commercial and corporate clients.

High Concentrations, Muted Growth: DIB has a fairly high, albeit reduced, exposure to the real-estate and construction sectors (end-1H24: 18% of total financing; end-1H23: 21%), reflecting the bank's tightened risk appetite and early settlements due to favourable market conditions. Single-obligor concentrations are high, although broadly in line with peers, with the 20 largest exposures comprising 45% of gross financing (compared with 34% average for the sector) or 2.7x common equity Tier 1 (CET1) capital at end-1H24.

Improved Impaired Financing Ratio: The bank's impaired financing ratio improved to 5.1% by end-1H24 (end-2023: 5.5%), broadly in line with the sector average, supported by write-offs (1H24: 61bp of average financing) and limited impaired financing origination. Specific financing allowances covered only 60% of impaired financing at end-1H24, reflecting reliance on collateral. We expect the impaired financing ratio to improve moderately in 2024-2025.

Healthy Profitability: DIB's operating profit/risk-weighted asset (RWAs) ratio increased slightly to 3.0% in 1H24, driven by fees and commissions, lower impairment charges and solid cost controls. DIB's net financing margin (NFM) fell to 3.0% in 1H24 (2023: 3.3%), reflecting muted growth and higher funding costs. Fitch expects the bank's NFM to moderate in 2024 amid interest-rate cuts, driving a slight weakening in its operating profit/RWA ratio.

Moderate Capitalisation: DIB's CET1 ratio increased to 13.7% by end-1H24 (end-2023 12.8%), supported by reasonable internal capital generation and muted growth. We view DIB's capital ratios as moderate given high concentrations and below-sector-average reserve coverage of impaired financing. Fitch expects DIB's CET1 ratio to remain at about 13% in the medium term.

Sound Funding and Liquidity: DIB is mainly customer deposit-funded (end-1H24: 86% of total non-equity funding), of which a healthy 42% was current and savings accounts (CASAs). Concentrations are high by international standards, but below peers', due to the bank's strong retail franchise, and largely related to government entities where balances have historically been stable.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Long-Term IDR (xgs)	BBB-(xgs)
Short-Term IDR (xgs)	F3(xgs)
Viability Rating	bbb-
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)

Related Research

Lower Interest Rates Negative for Most GCC Banks' Earnings (October 2024)

Fitch Affirms Dubai Islamic Bank at 'A', Outlook Stable; Upgrades VR to 'bbb-' (October 2024)

UAE Islamic Banks Dashboard: 2024 (October 2024)

UAE Bank Metrics Underpinned by Improved Operating Environment (September 2024)

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

EMEA Islamic Banks Outlook 2024 (December 2023)

Middle East Banks Outlook 2024 (December 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 is likely to 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 deterioration in DIB's asset-quality metrics (with impaired financing ratio increasing to 7%) or higher appetite towards riskier segments, combined with a weakening in core capitalisation (CET1 ratio sustainably below 12%), would likely to 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 is likely to 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 sovereign's Stable Outlook.

An upgrade of DIB's VR is unlikely in the near term and would require a further reduction in single-name concentrations, combined with a strengthening of impaired loans coverage by specific provisions and core capitalisation (CET1 ratio sustainably above 15%).

Other Debt and Issuer Ratings

Debt Rating Classes

Rating level	Rating
DIB Sukuk Limited	
Senior unsecured: long-term	A
Senior unsecured: long-term (xgs)	BBB-(xgs)

Source: Fitch Ratings

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 significant proportion of UAE banking sector funding is related to the government, so stress on DIB is likely to come at a time when the sovereign is also experiencing some form of stress.

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

The ratings of DIB's senior unsecured sukuk programme, housed under a special-purpose vehicle, DIB Sukuk Limited, are in line with its Long-Term IDR and Long-Term IDR (xgs), as a default on these obligations would be considered as a default of the bank according to Fitch's rating definitions.

Significant Changes from Last Review

DIB VR Upgraded

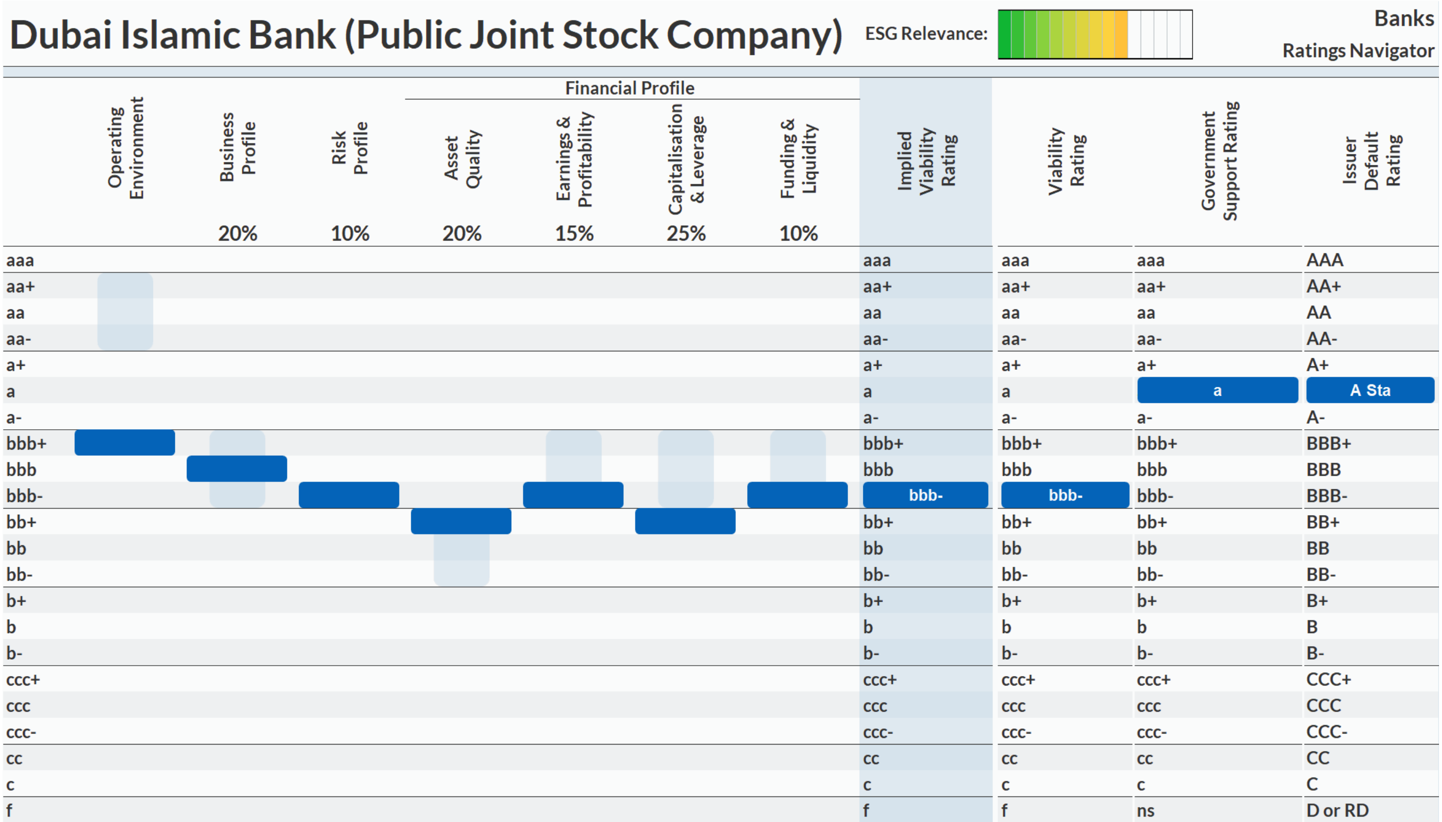
DIB's VR was upgraded to 'bbb-' from 'bb+' in October 2024, reflecting the bank's improved asset-quality metrics, which we expect to be sustained, and a tightened risk appetite, coupled with the bank's solid business, earnings and funding profiles, underpinned by favourable operating environment conditions.

UAE Bank Operating Score Upgraded to 'bbb+'

Fitch upgraded the UAE domestic bank operating environment score to 'bbb+' from 'bbb' in September 2024. The upgrade reflected a favourable economic environment in the UAE, including continued expansion in the non-oil sectors, strong liquidity in the sector, the positive sensitivity of most banks' net interest margins (NIMs) to high interest rates, and improved asset quality metrics at most banks in recent years. The continuing strengthening of the regulatory framework and legal system effectiveness is also positive for our assessment – Fitch views the UAE authorities to keep the strong adherence to international best practices. We therefore removed 'regulatory and legal framework' negative adjustment from the list of the adjustments deriving the 'bbb+' assigned operating environment score from the implied 'aa' category.

The UAE bank operating environment score, of 'bbb+', is now at the highest level globally for emerging-market banking sectors, as are the scores of Saudi Arabia, Chile and Malaysia.

Ratings Navigator



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) and financial market development (negative).

The capitalisation & leverage score of ‘bb+’ has been assigned below the implied category score of ‘bbb’ due to the following adjustment reason: risk profile and business model (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Solid Operating Conditions for UAE Banks

UAE banks are benefitting from strong operating conditions, supported by high oil prices, contained inflation and high interest rates. This was evident from the banks' strong performance in 2023 and 1H24, which we expect to be generally sustained in 2H24, but to moderate slightly for 2024 as a whole. Most UAE banks are well-positioned for higher interest rates and, since 2021, their earning asset yields have risen more than their funding costs due to a still-high share of cheap CASA, and a large percentage of floating-rate lending on their loan books.

We expect the strong business and operating environment for UAE banks to remain supportive in 2H24 and 2025, underpinned by high oil prices (2024F: USD80/barrel; 2025F:USD70/barrel). Fitch forecasts real GDP growth to be slower in 2024 at 3.1% (2023: 3.6%), but to accelerate to 4.9% in 2025. The high oil prices and recovered economic activity since 2021 underpinned strong GRE spending and resulted in strong non-oil GDP growth, which averaged 6.2% a year over 2021–2023.

We expect non-oil growth to slow in 2024 to 4.3% and 3.4% in 2025 as new resident inflows taper off and the increase in oil prices slows. However, this remains a strong performance despite global challenges (such as the slowdown in China, high interest rates, and geopolitical risks), underpinned by GRE spending, an attractive business environment and Gulf Cooperation Council demand. In our view, visa reforms and significant migration to the UAE make a real-estate market crash less likely. A long list of planned and budgeted development and infrastructural projects should underpin banks' business growth in the next five years.

Good liquidity and higher interest rates resulted in a notable widening of the sector average NIM, which improved to 3.2% in 2023 (2021: 2.3%), and was sustained in 1H24 (3.1%). The strong NIM and reduced cost of risk (1H24: 30bp; 2023: 70bp; 2022: 90bp) resulted in the historically strongest profitability metrics for most major UAE banks in 1H24. The sector average annualised return on equity was 20% in 1H24, up from 14.5% in 2022.

Lending growth accelerated in 1H24 (1H24: 5.7%, unannualised; 2023: 7.7%), and we expect the growth for the whole year to reach 8%–10%, driven by stronger expansion at some of the larger banks. The average impaired loan ratio for Fitch-rated UAE banks declined to 4.7% at end-1H24 (end-2022: 6%) due to recoveries, write-offs and lending growth. The coverage of impaired loans by total provisions remained good (95% at end-1H24), although was weaker at some rated banks due to reliance on collateral.

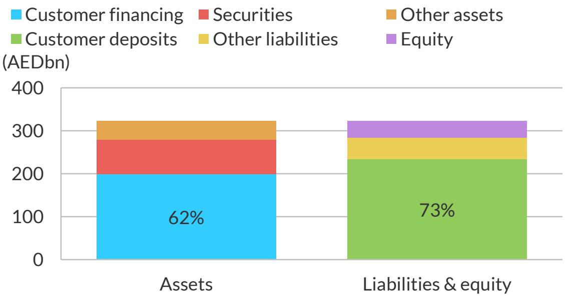
The sector average CET1 ratio fluctuated around 14% in 1H24 (end-1H24: 14.1%) as banks grew in line with internal capital generation, on average. Fitch expects UAE banks' financial metrics (asset quality, performance, capitalisation and profitability) to be stable in 2024, and profitability metrics will moderate in 2025 on expected interest rate cuts by the US Federal Reserve, which will be followed by the Central Bank of the UAE.

Business Profile

DIB's operations are concentrated in the UAE (end-1H24: 91% of financing), where it has a competitive advantage in Islamic banking. DIB is the largest Islamic bank in the country and operates through 55 branches. The bank also has an international presence, notably in Pakistan, Sudan, Indonesia, Kenya, Bosnia and, more recently, Turkey via a 20%-stake in TOM Group of Companies, which owns a digital retail bank. DIB is 27.97% owned by the Investment Corporation of Dubai, the investment arm of the Dubai government, with the remaining shares publicly traded.

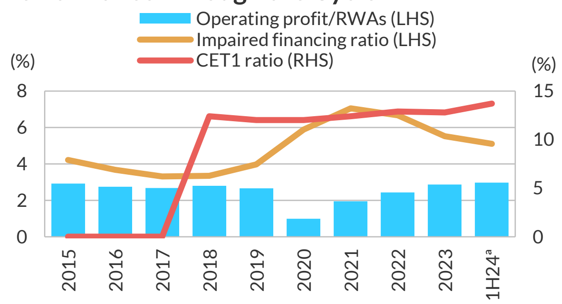
Net financing amounted to 64% of DIB's total assets at end-1H24, split between corporate (71%) and retail (29%) customers. DIB has high exposure to the real-estate and construction sectors, through direct financing (18% of total financing at end-1H24, albeit comparable with the sector average, estimated at 14%) and investment and development properties (3% of total assets). Revenues are reliant on net financing income (2023: 77% of total operating income), as fees and commissions remain moderate (13%). DIB is primarily customer deposit-funded (end-1H24: 86% of total non-equity funding).

Balance Sheet
End-June 2024



Source: Fitch Ratings, Fitch Solutions, DIB

Performance Through the Cycle



[a] Annualised
Source: Fitch Ratings, Fitch Solutions, DIB

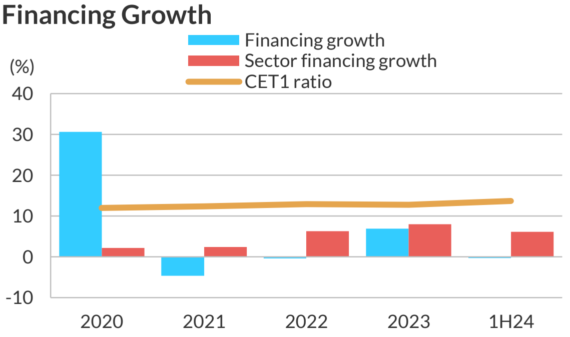
Risk Profile

DIB's exposure to the real-estate and construction sectors (end-1H24: 18%; end-1H23: 21%) is high, but has declined in recent years following the bank's tightening of underwriting standards and efforts to reduce industry concentrations, as well as favourable operating conditions in the real-estate sector. The rest of the corporate portfolio is fairly diversified by subsector. The retail book comprised 29% of total financing, split across home (42% of total retail financing), personal (34%) and auto financing (19%). Credit cards comprised a limited 6% of total retail financing (or 2% of total financing), but grew by 22% yoy in 1H24, reflecting increased limits but also retail customer acquisition and cross-selling. Around 40% of retail financing is to UAE nationals, and the majority of the unsecured portion (about 90%) is against salary assignments. We view the bank's retail financing business as having a good risk/reward balance.

Single-obligor concentrations remain higher than average for the UAE banks, with the top 20 largest exposures comprising 45% of gross financing or 2.7x common equity Tier 1 capital at end-1H24. Most of DIB's largest exposures are to well-performing Abu Dhabi and Dubai GREs. Reported related-party lending comprised a limited 1% of gross financing at end-1H24. DIB's financing growth has been muted in recent years and below the sector average as high interest rates and ample liquidity in the favourable UAE environment drove higher early settlements in the corporate book (including in the real-estate segment, which Fitch views as being positive for DIB's risk profile). As such, DIB's financing book shrank by 0.3% in 1H24, against sector-average growth of 5.7%.

Securities comprised 25% of total assets at end-1H24 (end-1H23: 21%), reflecting low financing growth in recent years and the bank's strategy to maximise returns on excess liquidity amid the high interest rate environment. Securities are almost entirely accounted for at amortised cost (99%), and around 70% of the bank's top 20 investment securities at end-1H24 originated from the UAE and GCC. DIB's market risk amounted to a limited 1% of RWAs at end-1H24.

Financing Growth



Source: Fitch Ratings, Fitch Solutions, DIB

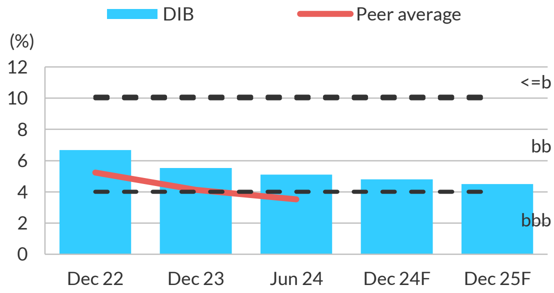
Financial Profile

Asset Quality

DIB's asset quality metrics have improved in recent years amid favourable operating conditions in the UAE, notwithstanding muted financing growth. The bank's impaired financing ratio (Stage 3 + purchased originated credit impaired, NPF) declined to 5.1% by end-1H24 (end-2023: 5.5%; end-2022: 6.7%), supported by low impaired financing origination (1H24: 0.9%; annualised), but also write-offs (11% of end-2023 impaired financing stock).

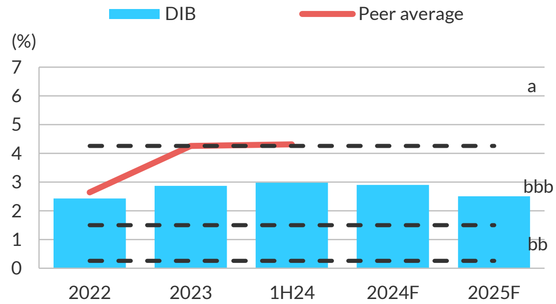
DIB's Stage 2 ratio has also improved, although it remained fairly high at 6.5% at end-1H24 (end-2023: 6.9%). Total reserves coverage of impaired financing increased to 80% by end-1H24 (end-2023: 77%), but remains below the average 95% for Fitch-rated peers. Fitch expects DIB's asset quality to remain stable in 2H24 and 2025, supported by solid operating conditions, declining interest rates and higher financing growth, as well as underpinned by the bank's tightened underwriting standards. We forecast the impaired financing ratio to decline to just below 5% by end-2024. Nonetheless, high sector and single-obligor concentrations continue to pose downside risks.

Impaired Financing/Gross Financing



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

DIB's operating profit increased by only 5% yoy in 1H24, reflecting muted growth and higher cost of deposit funding as customers switched from CASAs to interest-bearing wakala deposits in the high interest rate environment. As a result, the bank's NFM declined by 30bp over the same period. Net fees and commissions supported the bottom line, increasing by 27% yoy, although they comprised only a moderate 15% of total operating income (broadly in line with the UAE banks' average).

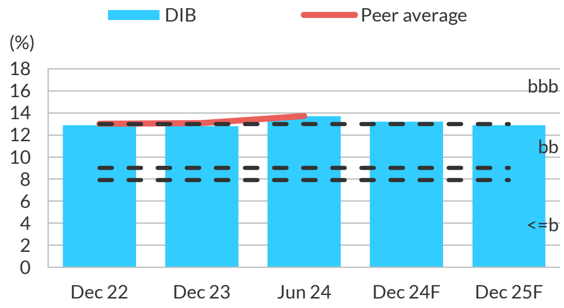
Financing impairment charges consumed a lower 14.9% of pre-impairment operating profit in 1H24 (2023: 16.4%), reflecting fairly limited NPF inflows. DIB's profitability is underpinned by strong cost controls, with a cost-to-income ratio of 28.5% in 1H24, at the lower end of the sector range. Fitch expects DIB's NFM to reduce further in 2H24-2025 amid interest rate cuts, driving a slight weakening in the bank's operating profit/RWA ratio.

Capitalisation and Leverage

DIB's CET1 ratio increased to 13.7% by end-1H24 (end-2023: 12.8%) supported by reasonable earnings and muted RWA growth. The bank's total capital adequacy ratio was a higher 18.1% at end-1H24, supported by AED8.3 billion of Additional Tier 1 sukuk.

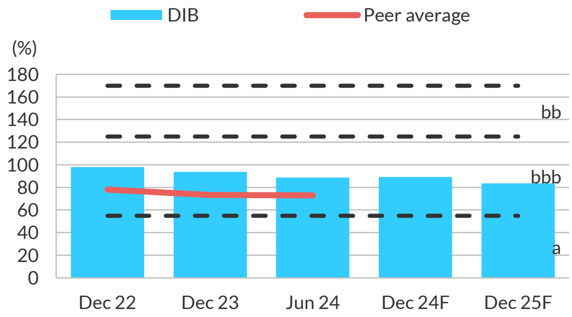
We view DIB's core capitalisation as only moderate given the bank's high single-obligor and sector concentrations, and below-sector-average coverage of impaired exposures (net impaired financing accounted for 6.2% of CET1 capital at end-1H24). Nonetheless, DIB's healthy profitability and tightened underwriting standards, as well as muted growth in recent years, underpin its capitalisation. Fitch expects DIB's CET1 to remain at around 13% in 2H24-2025.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Financing/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

DIB is mainly customer-deposit funded (end-1H24: 86.4% of total non-equity funding). The bank's retail franchise underpins its funding profile, as reflected in its share of CASAs (42%), although this was still below that of some larger peers. Other sources of funding include senior unsecured sukuk (9%), deposits from banks (2%) and Additional Tier 1 sukuk (3%). DIB maintains good access to international capital markets, as seen by its USD1 billion sustainable sukuk issuance in 1Q24.

Deposit concentration is below that of peers, but high by international standards, with the 20 largest depositors comprising 31% of total customer deposits at end-1H24. These largely relate to GRE entities and have proven stable. DIB's gross financing/customer deposits ratio decreased to 89% by end-1H24 (end-2023: 94%), as the bank's financing book shrank by 0.3%.

The bank's liquidity profile is sound, with a liquidity coverage ratio of 146% and net stable funding ratio of 108% at end-1H24.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category.

Peer average includes Abu Dhabi Islamic Bank PJSC (VR: bb+), Mashreqbank PSC (bbb) and HSBC Bank Middle East Limited (bbb). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	6 months - interim (USDm) Reviewed - unqualified	6 months - interim (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	1,170	4,296.9	8,780.1	8,160.6	6,659.9
Net fees and commissions	248	912.2	1,440.6	1,253.0	1,279.2
Other operating income	231	848.9	1,444.2	1,056.0	1,469.0
Total operating income	1,650	6,058.0	11,664.9	10,469.6	9,408.1
Operating costs	459	1,685.2	3,161.5	2,733.1	2,583.3
Pre-impairment operating profit	1,191	4,372.8	8,503.4	7,736.5	6,824.8
Financing & other impairment charges	178	652.3	1,395.8	2,102.9	2,394.0
Operating profit	1,013	3,720.5	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	93	343.0	97.6	79.3	38.1
Net income	920	3,377.5	7,010.0	5,551.8	4,406.0
Other comprehensive income	-28	-101.0	-459.2	-376.5	-7.2
Fitch comprehensive income	892	3,276.5	6,550.8	5,175.3	4,398.8
Summary balance sheet					
Assets					
Gross financing	56,559	207,711.5	208,355.9	194,835.5	195,616.6
- OW impaired	2,886	10,599.7	11,496.7	12,985.8	13,783.8
Financing loss allowances	2,304	8,460.4	8,902.6	8,792.9	8,926.0
Net financing	54,255	199,251.1	199,453.3	186,042.6	186,690.6
Interbank	1,404	5,157.7	4,483.7	4,606.9	3,303.4
Islamic derivatives	281	1,033.3	1,171.5	1,830.8	1,498.2
Other securities and earning assets	23,933	87,895.3	78,125.8	61,952.0	52,039.2
Total earning assets	79,874	293,337.4	283,234.3	254,432.3	243,531.4
Cash and due from banks	5,878	21,588.1	24,019.5	26,489.1	28,079.7
Other assets	2,103	7,725.1	7,037.7	7,317.1	7,470.5
Total assets	87,856	322,650.6	314,291.5	288,238.5	279,081.6
Liabilities					
Customer deposits	63,722	234,017.6	222,054.2	198,636.9	205,845.1
Interbank and other short-term funding	1,202	4,415.2	12,967.0	12,809.5	2,583.7
Other long-term funding	6,577	24,154.7	20,481.0	22,339.7	20,562.7
Trading liabilities and Islamic derivatives	275	1,010.0	1,057.4	1,578.1	1,422.0
Total funding and islamic derivatives	71,776	263,597.5	256,559.6	235,364.2	230,413.5
Other liabilities	3,238	11,890.5	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	10,592	38,898.3	39,169.8	35,710.7	33,200.3
Total liabilities and equity	87,856	322,650.6	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

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
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	28.5	27.6	26.4	27.8
Net Income/average equity	17.6	19.1	16.3	13.9
Asset quality				
Impaired financing ratio	5.1	5.5	6.7	7.1
Growth in gross financing	-0.3	6.9	-0.4	-4.6
Financing loss allowances/impaired financing	79.8	77.4	67.7	64.8
Financing impairment charges/average gross financing	0.6	0.7	0.7	1.0
Capitalisation				
Common equity Tier 1 ratio	13.7	12.8	12.9	12.4
Tier 1 capital ratio	16.9	16.1	16.5	16.0
Total capital ratio	18.1	17.3	17.6	17.1
Tangible common equity/tangible assets	12.0	12.4	12.4	11.8
Basel leverage ratio	12.6	12.1	12.6	12.5
Net impaired financing/common equity Tier 1	6.2	8.2	14.1	17.2
Risk weighted assets/total assets	78.0	79.1	80.4	82.0
Funding & liquidity				
Gross financing/customer deposits	88.8	93.8	98.1	95.0
Liquidity coverage ratio	146.0	187.2	150.0	158.2
Customer deposits/total non-equity funding	86.4	84.2	82.1	86.8
Net stable funding ratio	108.0	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

The UAE sovereign has a 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 in, 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, and in particular in Dubai.

Environmental, Social and Governance Considerations

FitchRatings

Dubai Islamic Bank (Public Joint Stock Company)

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ESG Relevance to Credit Rating

Dubai Islamic Bank (Public Joint Stock Company) has 1 ESG rating driver and 5 ESG potential rating drivers	key driver	0	issues	5
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.	driver	1	issues	4
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.	potential driver	5	issues	3
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.	not a rating driver	3	issues	2
Dubai Islamic Bank (Public Joint Stock Company) has exposure to operational implementation of strategy but this has very low impact on the rating.		5	issues	1
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.				

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

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.

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

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.

DIB has an ESG Relevance Score of '4' for Governance Structure as it is an Islamic bank and 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 has a negative impact on the bank's credit profile, and is relevant to the rating in conjunction with other factors.

In addition, Islamic banks have an ESG Relevance Score of '3' for Exposure to Social Impacts, above the sector guidance for a score of '2' for comparable conventional banks, which reflects certain sharia limitations being embedded in Islamic banks' 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 https://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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