

**CREDIT OPINION**

3 June 2024

Update

Send Your Feedback

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**Dubai Islamic Bank PJSC**

Update to credit analysis

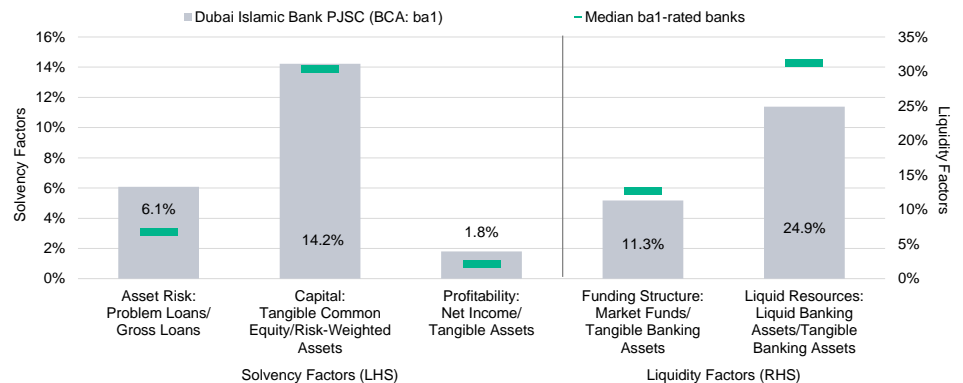
**Summary**

Dubai Islamic Bank PJSC's (DIB) A3 long-term local- and foreign-currency issuer ratings are based on the bank's ba1 Baseline Credit Assessment (BCA) and our view of a very high likelihood of government support from the United Arab Emirates (UAE, Aa2 stable) in case of need, which translates into a four-notch uplift from its BCA.

DIB's ba1 BCA reflects the bank's strong retail franchise in the UAE, strong profitability, and solid liquidity. These strengths are moderated by the bank's high borrower and sector concentration risks while asset-quality remains relatively weak but continues to improve.

Exhibit 1

**Rating Scorecard - Key financial ratios**



The problem loan and profitability ratios are the weakest of the average three-year ratios and the latest reported ratios. The capital ratio is the latest reported figure. The funding structure and liquid asset ratios are the latest year-end figures.  
Source: Moody's Financial Metrics

## Credit strengths

- » Strong profitability, supported by a dominant and growing Islamic franchise
- » Sound liquidity, with a granular funding profile
- » Solid capital levels
- » Very high probability of government support in case of need

## Credit challenges

- » Despite some improvement, asset quality remains relatively weak
- » High borrower and sector concentrations

## Outlook

The stable outlook on the bank's long-term ratings reflects our expectation that the bank's high credit concentration will be balanced by strong profitability, combined with strong capital and liquidity buffers.

## Factors that could lead to an upgrade

Upward pressure on DIB's ratings could develop if (1) the bank's asset quality and provisioning buffer significantly improve while maintaining stable profitability, strong capital and sound liquidity buffers, (2) there is a significant reduction in borrower and sector concentration risks, particularly in real estate and (3) there is a reversal of the bank's aggressive growth strategy.

## Factors that could lead to a downgrade

Downward pressure on DIB's ratings could develop if (1) the sovereign rating is downgraded, which would lead to reduced support capacity; or (2) we reassess the willingness of the government to provide support; or (3) there is a significant deterioration in the bank's operating environment, which would lead us to expect a weakening of its financial metrics, particularly on its solvency profile.

## Key indicators

Exhibit 2

### Dubai Islamic Bank PJSC (Consolidated Financials) [1]

	03-24 <sup>2</sup>	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (AED Million)	327,314.2	314,291.5	288,238.5	279,081.6	289,556.5	3.8 <sup>4</sup>
Total Assets (USD Million)	89,133.0	85,573.9	78,482.4	75,980.9	78,830.6	3.9 <sup>4</sup>
Tangible Common Equity (AED Million)	35,833.3	37,609.2	34,018.8	31,423.4	29,489.1	6.2 <sup>4</sup>
Tangible Common Equity (USD Million)	9,758.0	10,240.1	9,262.7	8,555.1	8,028.3	6.2 <sup>4</sup>
Problem Loans / Gross Loans (%)	5.1	5.5	6.7	7.0	5.9	6.0 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	14.2	15.1	14.7	13.7	13.2	14.2 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	24.1	24.7	30.3	34.2	31.8	29.0 <sup>5</sup>
Net Interest Margin (%)	2.6	2.8	2.8	2.2	2.3	2.6 <sup>5</sup>
PPI / Average RWA (%)	3.1	3.3	3.1	2.7	2.8	3.0 <sup>6</sup>
Net Income / Tangible Assets (%)	1.9	2.1	1.8	1.4	0.9	1.6 <sup>5</sup>
Cost / Income Ratio (%)	30.3	28.6	27.5	28.9	30.6	29.2 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	10.7	11.3	13.0	9.1	11.9	11.2 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	27.8	24.9	25.4	22.7	21.4	24.5 <sup>5</sup>
Gross Loans / Due to Customers (%)	88.7	93.8	98.1	95.0	99.6	95.1 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Profile

DIB had total assets of AED327.31 billion as of the end of March 2024 and is the fourth-largest bank in the UAE, with market shares of 8%, 11% and 9% in terms of assets, net loans and deposits, respectively, as of December 2023.

DIB provides a range of retail banking, wholesale banking, treasury and investment banking, and capital markets products and services to individual, corporate and institutional customers. It is represented internationally in Indonesia, Pakistan, Sudan, Bosnia and Kenya.

DIB was established in 1975 as the world's first Islamic bank. Since March 2000, it has been listed on the Dubai Financial Market (DFM: DIB). As of the end of December 2023, the Government of Dubai held a stake of 28% in the bank through the Investment Corporation of Dubai.

In July 2023, DIB acquired a 20% stake in T.O.M Group of Companies representing 1.2% of the bank's equity to penetrate the Turkish digital banking and financial technology sector, hence contributing to the geographical diversification of its revenues.

## Detailed credit considerations

### Strong profitability, supported by a dominant and growing Islamic franchise

As the oldest Islamic bank in the world, DIB benefits strongly from its Shari'ah-compliant branding, particularly in the retail segment, among UAE citizens. DIB's market share has increased to 8.4% as of December 2023 from 4.8% as of December 2013 in terms of assets, driven by both the retail and corporate (including government-related entities) segments. The retail franchise has displayed robust sustainability through various economic cycles, which proves the loyalty of its customer base.

DIB's strong retail franchise, coupled with strong net profit margin of 2.6% during the first three months of 2024 (2.9% during the first quarter of 2023) underpins its strong profitability, which is further supported by the favorable interest rate environment. The bank's net income-to-tangible assets ratio was at 2.1% during 2023 up from 1.8% for 2022 and back to pre-pandemic levels of 2%. Despite the introduction on 1 January 2024 of a corporate tax, bottom line profitability remained healthy at 1.9%, also supported by lower provisioning charges during the first quarter of 2024, which consumed 14% of pre-provision income (17% in 2023 and 32% in 2021).

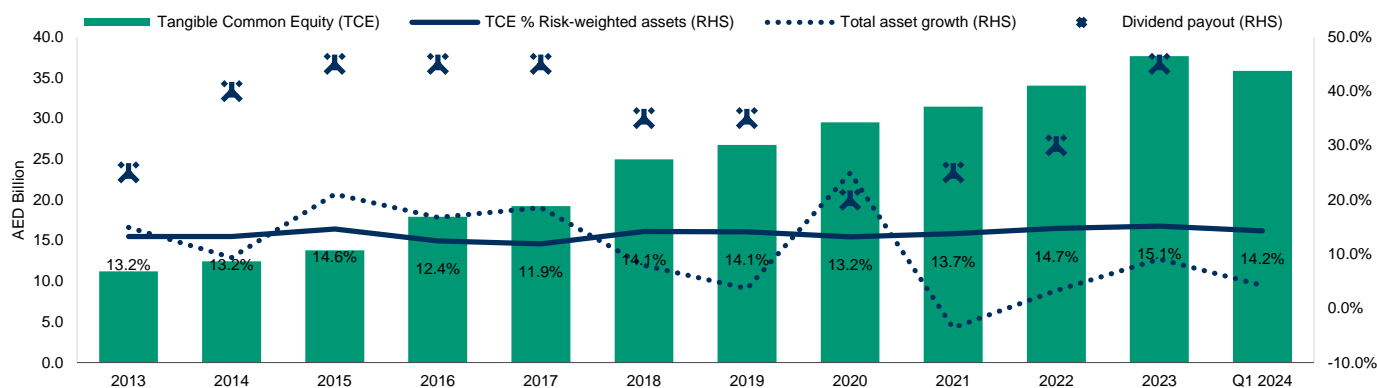
We expect that net profitability will normalize at current levels as the impact of the newly introduced corporate tax will be mitigated by lower provisioning needs and solid top line margins in a context of high interest rates and favorable operating environment.

### Solid capitalisation

DIB's tangible common equity to risk-weighted assets ratio decreased to 14.2% as of end of March 2024, from 15.1% as of December 2023 (14.7 as of December 2022), on the back of a higher dividend payout in the first quarter of the year at 45% (30% in 2022). Despite its sound profitability, DIB's capitalisation has always been strained by the banks' fast asset growth (see Exhibit 3) and high dividend payout.

Exhibit 3

Evolution of DIB's capital metrics



Source: DIB's financial statements and Moody's Ratings

As of December 2023, DIB had a total of hybrid Additional Tier 1 (AT1) sukuk of AED8.3 billion, which represented 2.6% of total assets. The bank's capitalisation levels are now broadly in line with the UAE average, with reported Tier 1 ratio was at 16.4% as of March 2024 (16.1% December 2023). DIB's capitalisation remains constrained by not fully covered non performing financings, resulting in a problem loans to loan loss reserves and shareholders' equity ratio of 24.1% as of March 2024 (24.7% as of December 2023).

### Despite some improvement, asset quality remains relatively weak and credit concentrations high

We expect DIB's overall asset quality to continue to improve. The non-performing financing (NPF) ratio has declined to 5.1% as of March 2024 from 5.5% as of December 2023 (6.7% as of December 2022) but remains higher than the domestic system average. The improvement in asset quality in 2024 is the result of the resolution of legacy exposures. In March 2024, DIB announced the amicable settlement of all litigations with NMC in exchange of cash considerations and NMC Holdco notes, hence becoming an economic owner of NMC Holdco SPV LTD (NMC new holding company which is incorporated under the Abu Dhabi Holding company). Our expectation for further improvement also takes into account the overall improving operating conditions in the UAE and the bank's diversified financing book with significant exposure to individuals at around 27% of the financing book as of December 2023.

Still, Moody's notes that DIB's stage 2 balance remains relatively high at around 14% of gross loans as of March 2024 and on a rising trend (11% in 2021).

Our assessment of DIB's asset risk also takes into account its significantly high credit concentrations (by name and sector). Additionally, related-party exposures amounted to around 3.6% of the bank's tangible common equity as of March 2024. DIB's main shareholder, the Government of Dubai (with one representative on the board of directors), is also one of the bank's main borrowers, and therefore DIB is heavily exposed to the government and government related entities in both its investment and financing book.

The bank's real estate exposure has been reduced to 17% of the financing book as of December 2023 from 20% as of December 2022. This now compares favorably to some of its local peers and is in line with the United Arab Emirates (UAE) system average. DIB loan book grew 7% in 2023, and is expected to remain broadly in line with the UAE system average (8% in 2023).

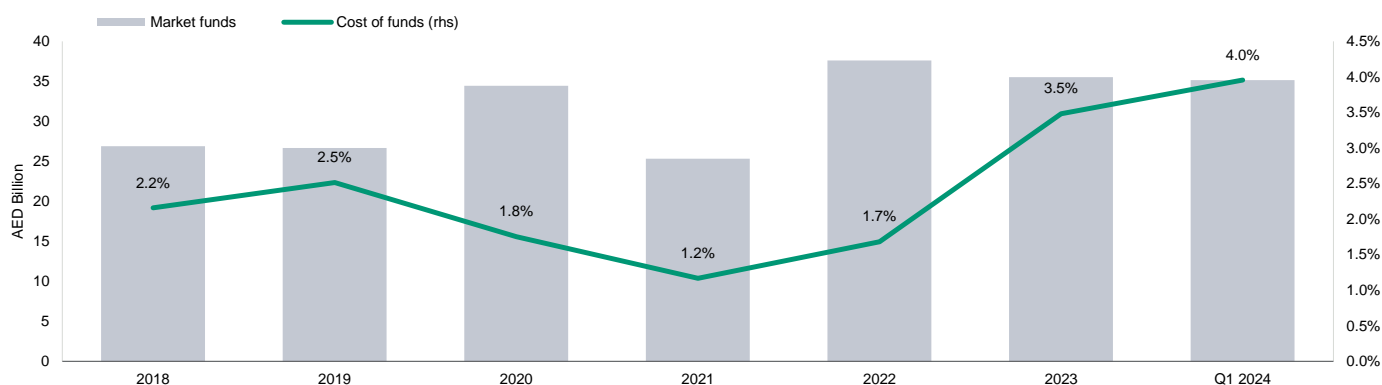
### Solid liquidity with a granular funding profile

DIB's funding and liquidity positions remain solid, despite rapid asset growth. Liquid assets slightly increased to 27.8% of tangible banking assets as of March 2024 (24.9% as of December 2023 and 25.4% as of December 2022) while market funding as a proportion of tangible banking assets stood at a manageable 10.7% as of the same period (11.3% as of December 2023). The bank's net financings-to-deposit ratio decreased to 85.2% as of March 2024 compared to 90% as of December 2023 and 94% as of December 2022.

The bank's overall solid funding and liquidity metrics are driven by its strong Islamic franchise, which led to a strong deposit growth over recent years (12% in 2023). The bank remained primarily deposit-funded, with deposits accounting for 72% of total assets as of March 2024 (2022: 69%). However, zero- or low-cost current and savings account balances declined to 38% of the bank's deposits as of March 2024 from 43% as of December 2022 and remain well below local peers average of 51%, resulting in a volatile cost of funds.

Exhibit 4

#### Funding and liquidity metrics



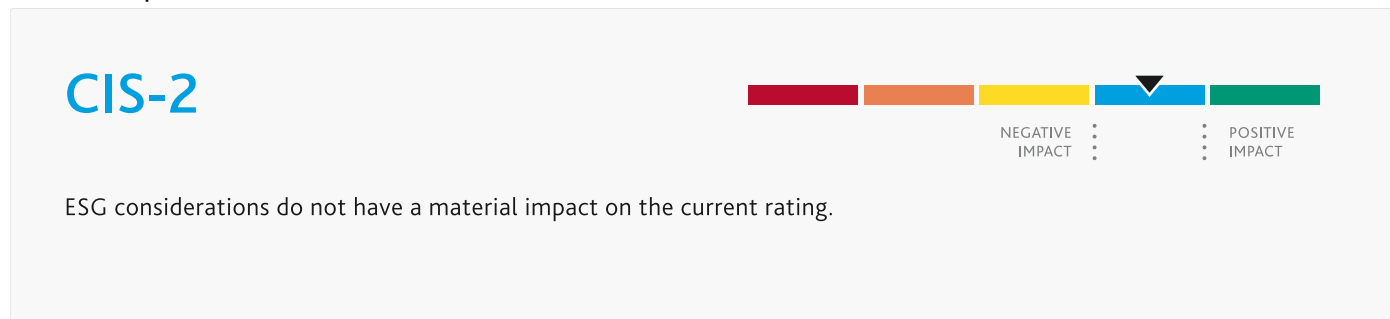
Source: DIB's financial statements and Moody's Ratings

## ESG considerations

### Dubai Islamic Bank PJSC's ESG credit impact score is CIS-2

Exhibit 5

#### ESG credit impact score

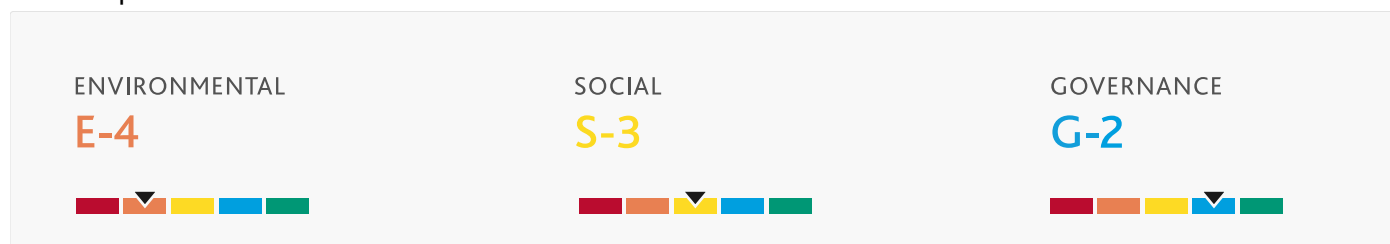


Source: Moody's Ratings

DIB's **CIS-2** indicates that ESG considerations are not material to the rating because the very high level of government support mitigates the impact of environmental, social and governance risks on the ratings.

Exhibit 6

#### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

DIB faces high exposure to environmental risks, mainly because of carbon transition risk. The UAE's economic dependence on the hydrocarbon sector (although low hydrocarbon production costs provide a degree of insulation to carbon transition), as well as its dependence on desalinated water and exposure to rising sea levels, increases its vulnerability to environmental risks, potentially affecting the creditworthiness of the bank's counterparties.

### Social

DIB faces moderate social risks related to regulatory and litigation risks, requiring high compliance standards, as well as in the areas of data security and customer privacy. DIB and UAE banks are generally focused on intermediation with simpler product ranges and counterparties. Consumer protection regulation partially mitigates mis-selling and mis-representation risks.

### Governance

DIB has established governance practices as a listed firm and a track record of broadly meeting its annual guidance on financial targets. The bank's financial strategy is transparent and hosts regular investor/analyst update calls with timely reporting on financial statements (quarterly and annually). Finally, although the Dubai government maintains a 28% ownership stake in DIB, which is also reflected in the composition of its board of directors, this does not result in incremental governance risks because of the country's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Government support

DIB's A3 issuer rating incorporates four notches of uplift from its ba1 BCA. This is based on our assessment of a very high probability of government support in case of need, which reflects the UAE's strong capacity to support; DIB's importance within the UAE's banking system, with its dominant flagship Islamic franchise (the oldest Islamic bank in the UAE); DIB's government ownership (28% by the Government of Dubai); and past evidence of systemic support that has been provided to banks in case of need.

### Counterparty Risk (CR) Assessment

#### The CR Assessment of DIB is positioned at A2(cr)/Prime-1(cr)

We consider the United Arab Emirates a jurisdiction with a nonoperational resolution (non-ORR) regime. For non-ORR countries, the starting point for the CR Assessment is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support uplift as applied to the issuer rating. The CR Assessment hence benefits from four notches of systemic support in line with our support assumptions for its issuer ratings, consistent with our belief that governments are likely to maintain such operations as a going concern to reduce contagion and preserve a bank's critical functions.

### Counterparty Risk Ratings (CRRs)

#### DIB's CRRs are placed at A2/Prime-1

Similarly to the CR Assessment, the starting point for the CRRs is one notch above the bank's Adjusted BCA, to which we add the same notches of government support uplift as applied to the issuer rating. As a result, the bank's CRRs are rated one notch higher than the bank's issuer ratings at A2.

### Source of facts and figures cited in this report

Unless otherwise stated, the local system averages quoted in the report are updated as of December 2023. The global medians quoted in the report are updated using the most recent financial data. Unless noted otherwise, other data related to systemwide trends are sourced from the central bank. Bank-specific figures originate from the bank's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document [Financial Statement Adjustments in the Analysis of Financial Institutions](#) published on 8 April 2024.

## Methodology and scorecard

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 7

### Dubai Islamic Bank PJSC

Macro Factors							
Weighted Macro Profile		Strong - 100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	6.1%	ba2	↔	b2	Single name concentration	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.2%	a3	↔	ba1	Expected trend		
Profitability							
Net Income / Tangible Assets	1.8%	a2	↑	baa1	Expected trend		
Combined Solvency Score		baa2		ba2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	11.3%	a3	↔	baa2	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	24.9%	baa3	↔	baa3	Stock of liquid assets		
Combined Liquidity Score		baa1		baa2			
Financial Profile				ba1			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Aa2			
BCA Scorecard-indicated Outcome - Range				baa3 - ba2			
Assigned BCA				ba1			
Affiliate Support notching				0			
Adjusted BCA				ba1			
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating	
Counterparty Risk Rating	1	0	baa3	4	A2	A2	
Counterparty Risk Assessment	1	0	baa3 (cr)	4	A2(cr)		
Senior unsecured bank debt	0	0	ba1	4	A3	A3	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 8

Category	Moody's Rating
<b>DUBAI ISLAMIC BANK PJSC</b>	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2
<b>DIB SUKUK LIMITED</b>	
Outlook	Stable
Bkd Senior Unsecured	A3
<b>DIB TIER 1 SUKUK (3) LTD.</b>	
BACKED Pref. Stock Non-cumulative	B1 (hyb)

Source: Moody's Ratings



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