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## IIRA assigns 'Positive' outlook to national scale ratings of Dubai Islamic Bank

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**Manama, December 19, 2019**– Islamic International Rating Agency (“IIRA”) has maintained international scale ratings assigned to Dubai Islamic Bank (“DIB” or “the bank”) at A/A1 (Single A / A One) and national scale ratings of AA-(ae)/A1+(ae) (Double AMinus / A One Plus).

The outlook on the national scale ratings has been revised to ‘Positive’ from ‘Stable’ as a reflection of the bank’s superior performance in a challenging economic environment over the last few years, underpinned by a strong balance sheet and sustained, high income generation capacity. Notable market share gain, generally improving asset quality indicators, shareholder support as evidenced by recent capital injections, and maintained access to capital markets, drive the improvement in rating outlook. Overall, the macroeconomic environment in the Gulf Cooperation Countries calls for caution, despite having shown signs of stability in 2019.

For the United Arab Emirates (“UAE” or “the country”) economy, the 2019 outlook was perceived to be slightly more conducive for banking sector on the back of increasing focus on economic diversification and improved prospects for growth, given various stimuli from the governments of Dubai and Abu Dhabi; however, weak real estate markets and softening of labor market pose as key risks to the sector.

DIB operates as one of the leading Islamic banks in the UAE, and has been designated as a Domestic - Systemically Important Bank. The bank’s market share has been on a steady uptrend recently. Dubai Islamic Bank posts superior asset quality indicators to sector with net impairment ratio at 1.0% as of June’19 being well below the sector average of 2.0%. Albeit still high, there was a moderation in exposure to the real estate sector over recent periods.

Following an AED5.1bn rights issue in 2018, the bank’s buffers stand reinforced, despite the sizable business growth and consistently strong dividend payout over time. Moderation in dividend payments from 2018 earnings and strong sponsor support, evidenced by recent rights issues, indicates responsiveness to growth challenges and complements our assessment of continuing sufficiency of the bank’s capital buffers. The Bank’s deposit base exhibits diversity, owing to a strong Islamic banking franchise. Liquidity metrics are deemed adequate.

DIB’s profitability indicators with an RoAA of 2.4% during H1’2019 are supported by steady spreads, healthy volume growth and controlled operating costs while remaining superior to industry average of 1.7%. We expect margins to remain stable through 2019; with sustained volume growth, enhanced operating income is likely to yield sufficient buffers to absorb any potential increase in provisioning charges-offs, in the backdrop of continuing economic challenges.

IIRA’s assessment on DIB’s fiduciary score ranges between ‘76 – 80’, reflecting strong fiduciary standards, where by the rights of various stakeholders are well defined and protected. The bank’s self-regulation framework is considered relatively strong and displayed improvement compared to prior review particularly in terms of the headcounts of control departments and the streamlined reporting



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structure of the compliance function. IIRA opines that the corporate and Shari'a governance of the Bank may be enhanced via further disclosures in these fronts.

For further information on this rating announcement, please email at [iira@iirating.com](mailto:iira@iirating.com).

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