



IIRA Maintains the Credit Ratings of Dubai Islamic Bank

Manama, January 26, 2021– 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 A Minus / A One Plus).

The outlook on the national scale ratings has been maintained at ‘Positive’ assessed in December 2019, in lieu of the then expected merger with Noor Bank, and which has been completed in October 2020. In addition to the acquisition, the bank has posted above sector organic growth while continuing to strengthen capital buffers and maintaining adequate liquid reserves. No significant deterioration has been seen so far in asset quality and additional provisions of ECL overlays amounting to AED600mn are expected to address the changes in ECL due to the spread of the Covid-19 pandemic; as such the bank’s financial position is deemed to be resilient. Nevertheless, external risks are exacerbated by the negative spillovers of Covid-19 posing challenges in the form of weaker oil prices, reduced tourist inflows, and depressed business and consumer sentiment. Forbearance measures taken by the Central Bank of UAE (‘CBUAE’) may have had a limiting effect on the recognition of asset losses in the current year. As regulatory measures ease off and business sentiment recovers at least partially, national scale ratings may be upgraded, if no material adverse, unexpected effects on asset quality emerge over the current year, and as indicated by continuing the ‘Positive’ outlook on ratings.

In January 2020, Dubai Islamic Bank completed the acquisition of Noor Bank, a UAE based Islamic bank with around AED47.6bn assets at the time of acquisition, resulting in changes to the ownership structure. Sovereign ownership through Investment Corporation of Dubai at 27.9% remains noteworthy, which along with the substantial market share of the bank at 9.2% makes government support likely if needed.

Following the acquisition, total CAR and CET1 of the bank improved to 17.3% and 12.9% respectively. Internal capital generation is expected to improve as the merger synergies kick in and the impact of sizable provisions taken as a matter of prudence in Q1’20 dissipates by the end of the year. Moreover, the CBUAE’s allowance of banks to tap in 60% of capital conservation buffers and 100% of D-SIB buffers, and lowering of risk weights for SME lending, should allow the Bank to continue to expand through the present situation. Basel III Liquidity Coverage Ratio (“LCR”) of the Bank retreated closer to 100% by end of Q3’2020 given the strong growth in financing portfolio, while remaining well above the reduced LCR threshold of 70% permitted by the CBUAE.

Net income retreated in Q1-Q3’20, with limited revenue growth not exceeding the higher operating costs and provisions which were mostly set aside on precautionary basis given COVID-19 related risks. We expect lower yields on assets and possible weakness in asset quality to pose risk to earnings in 2020 on a sector-wide basis. DIB has historically maintained superior profitability compared to sector average, given its wider margins, stronger asset quality and better efficiency; as such we expect the earnings premium to continue with further crystallization of synergies from acquisition of Noor Bank.



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IIRA maintained DIB's fiduciary score within the '76 – 80' band indicating strong fiduciary standards, whereby the rights of various stakeholders are well defined and protected. However, we revised the Bank's score on the Corporate Governance front to '76-80' from '71-75'. CBUAE has announced Corporate Governance Regulations along with the Corporate Governance standards based on OECD corporate governance standards and principles, which became effective on 15 September 2019, reinforcing the Corporate Governance framework in the Country. Since our prior review, we note the enhancement of the scope of the former risk management committee to incorporate governance aspects embodied in Board Risk Compliance and Governance Committee. There has been continuous improvement in an already strong self-regulatory framework of the Bank. Meanwhile, the Internal Shari'a Supervisory Committee was largely reappointed in the ongoing year and Internal Shari'a Audit and Internal Shari'a Compliance functions are segregated as directed by the CBUAE's new Shari'a Governance regulations. The bank also completed the gap analysis for the existing products on AAOIFI standards conformity, as per CBUAE regulations.

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