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FIDUCIARY RATING REPORT

Dubai Islamic Bank P.J.S.C.

December 2023

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency
Serving the Islamic Ummah

FIDUCIARY RATING REPORT

Dubai Islamic Bank P.J.S.C.

Report Date:
December 28, 2023

Analyst:
Hasan Demir, CFA

Credit Rating	Latest Rating (December 28, 2023)	Previous Rating (October 19, 2022)
International Scale	A+/A1	A+/A1
Outlook	Stable	Stable
National Scale	AA (ae)/A1+(ae)	AA (ae)/A1+(ae)
Outlook	Stable	Stable

Fiduciary Scores	Latest Scores (December 28, 2023)	Previous Scores (August 24, 2022)
Overall Fiduciary Score	**81-85**	**81-85**
Asset Manager Quality	81-85	81-85
Corporate Governance	81-85	81-85
Shari'a Governance	81-85	76-80

Company Information

- **Incorporated** in 1975
- **Public Joint Stock Company**
- **Major Shareholders**: *As of Sep'23*
  Investment Corporation of Dubai – 27.97%
  Public, 72.03%
- **External Auditor** : Deloitte & Touche (M.E.)
- **Chairman:** H.E. Mohammed Al Shaibani
- **Group Chief Executive Officer**: Dr. Adnan Chilwan
- **Branches (Sep '23):** Domestic – 56.

CORPORATE PROFILE

Dubai Islamic Bank P.J.S.C. ("DIB" or "the Bank") is licensed as an Islamic bank in the United Arab Emirates ("UAE" or "the Country"). DIB is among the largest three Islamic banks by assets globally and fourth largest bank in UAE. The Bank was listed as one of the Domestic – Systemically Important Banks ("D-SIBs"[4]) in 2018 by the Central Bank of UAE ("CBUAE").

The market share of the Bank in terms of assets was 7.9% as of YE2022. The global presence of DIB extends to Pakistan, Turkey, Sudan, Indonesia, Kenya, and Bosnia and Herzegovina, which provides it outreach to over 5 million customers through 9,000 employees globally.

TABLE 1: KEY FINANCIAL INDICATORS

AED bn / %	2020	2021	2022	9M-23
Total Assets	289.6	279.1	288.2	313.4
Net Financings	196.7	186.7	186.0	199.0
Deposits	205.9	205.8	198.6	220.9
Total Equity	43.1	41.5	44.0	46.0
Operating Income	9.5	9.4	10.5	8.5
Net Income	3.2	4.4	5.6	4.8
Cost/Income Ratio (%)[1]	26.8%	24.9%	24.4%	24.7%
RoAA (%)[2]	1.2%	1.5%	2.0%	2.1%
RoAE (%)[3]	8.1%	10.4%	13.0%	14.3%
Gross NPF Ratio (%)	5.9%	7.0%	6.7%	6.2%
CET1 CAR (%) – Basel III	12.0%	12.4%	12.9%	13.6%
Total CAR (%) – Basel III	18.5%	17.1%	17.6%	18.1%
Financing (Net) / Deposit Ratio (%)	95.5%	90.7%	93.7%	90.1%

The shareholding structure remained unchanged since our prior review with Investment Corporation of Dubai ("ICD") owning 27.97% of the Bank, and with the remaining shares listed on Dubai Financial Market ("DFM"). ICD's global footprint extends to 87 countries and 58 investee companies with total asset size of AED1.2trn and shareholders' equity of AED269bn respectively as of year-end 2022. The investment portfolio of ICD is diversified with 25% in transportation sector, followed by 23% in financial institutions, 18% in hospitality, 15% in real estate & construction, 6% in industrial sector, and 3% in oil & gas.

Within its Strategy 2022 – 2026, the Bank has been reinforcing its control functions both in terms of headcount and technological resources, increasing oversight of its subsidiaries and affiliates, enhancing operational efficiencies with a robust digital drive, accelerating ESG initiatives, and growth - both geographically and by expanding target customer segments. A recent announcement informs of an acquisition plan for 20% stake in the T.O.M. Group of Turkiye, which has exposures in a digital Islamic bank, electronic payment company, and a financing company, specialized in developing innovative digital products which shall support the Group's global ambitions once the deal is finalized.

STRATEGIC INVESTMENTS

The Strategic investment of the Bank incorporates mainly subsidiaries and affiliates operating in banking, financial services, brokerage, consultancy, leasing, real estate and property management. In September 2023, the Bank announced that it will become a significant minority shareholder in the T.O.M. Group of Türkiye which has exposures in a digital Islamic bank, an electronic payment company, and a financing company, specializing in developing innovative digital products. The Bank will acquire a 20% shareholding

[1] Total expenses excluding depreciation divided by the net operating income.
[2] Annualized for 9M'23.
[3] Annualized for 9M'23.
[4] CBUAE's other 3 D-SIBs include First Abu Dhabi Bank ("FAB"), Emirates NBD ("ENBD"), Abu Dhabi Commercial Bank ("ADCB")

across T.O.M. Group with an option to increase its shareholding to 25% within 12 months. The acquisition is pending the approval of regulatory authorities.

Summary details of key strategic investments, are listed below:

TABLE 2: STRATEGIC HOLDINGS

Name / Country	Stake / Accounting Treatment	Scope of Activities
DIB Pakistan Ltd. ("DIBPL") / Pakistan	100% (Subsidiary) / Full Consolidation	• Incorporated in 2005, DIBPL is DIB's largest operating banking subsidiary accounting for about 2.6% of parent's assets in 2021. • Operates with a branch network of 235 across Pakistan. • Assets and net profit increased 28% and 14% respectively in local currency terms during 2022. • CAR and CET1 improved to 15.6% and 11.7% respectively during 2022. • 2022: Net assets: ~AED 516mn (with aggregate assets at ~AED7.2bn)
Tamweel P.S.C ("Tamweel") / UAE	92% (Subsidiary) / Full Consolidation	• A property development and financing company was established in November 2000. Also licensed by the CBUAE to operate as an Islamic finance company. • DIB has benefited in terms of operational and financial synergies from its integration with Tamweel. • 2022: ○ Assets: AED2,911mn (1.0% of DIB) ○ Equity: AED2,837mn ○ Total Comprehensive Income: AED56.2mn (2021: AED35.9mn).
Deyaar Development P.J.S.C. ("Deyaar") / UAE	44.9% (Subsidiary) / Full Consolidation	• Incorporated in 2002, Deyaar engages in real estate development and property management business in UAE. Listed on DFM. • Consolidated in DIB financials since 2013 as DIB exercises de-facto control over Deyaar. • Profitability was substantially higher during 2022 thanks to the buoyant real estate market. • 2022 ○ Assets: ~AED6,162m (2.1% of DIB) ○ Equity: AED4,514m ○ Total Comprehensive Income: AED 143.7m (2021: AE 52.9mn)
Bank Panin Syariah ("BPS") / Indonesia	25.1% (Associate) / Equity method	• Islamic commercial bank operating in Indonesia; listed on Indonesia stock exchange. Began operations in December 2009. Operates with 10 branches as of September 2023. • The majority shareholder is PT Bank Pan Indonesia Tbk, one of the biggest commercial and retail banks in Indonesia. • Asset base grew by 2.5% in local currency terms in the year 2022. • 2022: Net assets: ~AED 587m (with aggregate assets at ~AED3.5bn)
DIB Bank Kenya ("DIBK") / Kenya	100% (Subsidiary) / Full Consolidation	• DIB's Greenfield international banking venture in East Africa • Obtained approval and license from the Central Bank of Kenya in May 2017 • Has branch network of 6 as of September 2023. • Assets grew by 14% in local currency terms during 2022. • Basel III CAR of 15.5% (2021: 17.1%). • 2022: Net assets: ~ AED113 m (with aggregate assets at AED549 m)

Economic Review

Energy prices reached historic highs in 2022 with crude oil peaking in the early part of the year due to tight supplies amidst the Russia-Ukraine conflict. This was followed by moderation on weaker demand from China and fears of recession in H2'22. Nevertheless, the full year marked an elevated average of US$100.9/barrel[5] (2021: US$70.8/barrel). For 2023, average crude oil price is estimated to decline to US$84.0/barrel before rebounding to USD93.2/barrel in 2024.[6]

Table 3: UAE Macroeconomic Indicators

Figures as stated	2020	2021	2022	2023F	2024F
Population (mn)	9.3	9.6	9.9	10.1	10.2
Real GDP Growth	-5.0%	4.4%	7.9%	3.3%	4.3%
Real Oil GDP Growth (%)	-3.8%	-1.1%	9.5%	-0.3%	3.5%
Real Non-Oil GDP Growth (%)	-5.4%	6.5%	7.2%	4.5%	4.6%
Average CPI (%)	-2.1%	2.5%	4.8%	2.8%	2.6%
Current Account Balance (% of GDP)[7]	6.0%	11.5%	11.7%	8.2%	7.7%
General Government Debt (% of GDP)[8]	41.1%	35.9%	31.1%	29.4%	28.7%

Higher oil prices and recovery of services sector after the lifting of Covid-19 restrictions, reflected into notable acceleration of growth in UAE, to 7.9% in 2022 from 4.4% in the preceding year. According to the Central Bank of UAE ("CBUAE"), annual GDP growth for 2023 is projected at 3.3% with -0.3% decrease in oil-GDP and 4.5% increase in non-oil GDP. The slower than prior year growth in non-oil GDP is accounted for by a deceleration in 2023, and as also anticipated for 2024, as global demand softens. Oil production, however, is expected to rebound in 2024 as some of the production constraints ease, supporting CBUAE forecast of 4.3% overall GDP growth for the year.

In H1'2023, the UAE economy posted a growth rate of 3.7% YoY. This reflects resilient yet moderating economic activity in the non-oil sector (which accounts for three quarters of the economy), along with significantly lower growth in oil production. After slowing slightly over the summer, business conditions improved in September with the S&P Global UAE Purchasing Managers' Index rising to 56.7 from 55.0 in August, and as businesses reported strong growth in activity. Export orders also rose sharply in September after being relatively subdued in H1'2023. Data so far points to healthy non-oil growth in 2023, particularly when compared with much weaker PMI readings for the world's largest economies, including China, the US and the Eurozone.

In 2022, total non-oil exports increased by 11.1% compared to the previous year, reaching AED 368 billion. On the back of dynamic non-oil sector economic activity and appreciation of the AED, imports increased more sharply by 22.6% YoY in 2022. Despite falling to 8.2% of GDP as the average oil prices were lower

[5] Source: Energy Information Administration
[6] Source: Energy Information Administration, Short Term Energy Outlook, November 2023.

[7] IMF forecasts
[8] IMF forecasts

vis-a-vis 2022 (2022: 11.7% of GDP), current account surplus to GDP is expected to remain above the over the cycle averages.

In line with global trends, consumer price inflation edged higher with an average annual reading of 4.8%, yet remained well below global averages. Inflation is projected to trend down to 2.8% in 2023 as per CBUAE projections, on the back of softer price increases in all categories, especially transport and food and beverages. Imported inflation is expected to be modest owing to the disinflation trend worldwide, while rents and wages are also expected to contribute moderately. The introduction of the corporate income tax in June 2023 is expected to only have mild effects to the inflation outlook. In 2024 inflation is projected to slow further to 2.6%, a downward revision from 2.8%, due mainly to the maintained decline in transport and food prices.

Despite the continuing global uncertainty and further monetary policy tightening, the UAE real estate sector continued its good performance in 2022 and so far, in 2023. According to REIDIN, the sales prices of residential properties in Abu Dhabi registered a 2.7% increase in Q2’2023 compared to the same period a year ago. Based on Dubai Land Department (DLD) data, Dubai's residential real estate sector also shows strong performance in H1’2023. The number of real estate transactions conducted during this period, increased by 40% YoY, while the number of new investors in Dubai’s real estate market increased by 15% YoY during this period, reflecting the market’s attractiveness to a diverse pool of investors. Residential property sale prices in Dubai also increased on average by 0.6% Y-o-Y in Q2’2023.

Owing to high oil prices, fiscal performance has strengthened with the consolidated fiscal balance recording a surplus of AED23.2bn or an annualized 5% of the GDP in Q1’23, compared to a surplus of 7.9% over the same period in 2022. This performance is in line with expectations, whereby the phased introduction of a corporate income tax, that began in June 2023 is expected to support higher non-oil revenue over the medium term. As per IMF forecasts, public debt is forecasted to maintain its decline and fall well below 30% of GDP in 2023.

Banking Sector

The UAE Banking Sector has demonstrated strong overall operating performance during 2022 and so far in 2023, with improving profitability indicators and increasing capital buffers, as well as sound liquidity levels. Following a 10.8% increase in 2022, the asset base of the sector grew by 6.4% Ytd by August 2023. Islamic Banks have a market share of 17.2% in terms of assets and 21.1% in terms of credits as of June 2023 (2022: 17.2% and 21.2%).

Table 4: UAE Banking Sector Indicators

Figures as stated	2020	2021	2022	June'23
Gross Assets (AED'bn)	3,189	3,322	3,668	3,873
Gross Financings (AED'bn)	1,881	1,916	2,042	2,124
Gross NPF Ratio	7.6%	7.3%	6.6%	6.2%
LCR	148.5%	140.3%	155.9%	162.5%
Capital Adequacy Ratio	18.1%	17.1%	17.4%	18.2%
CET-1 Ratio	14.8%	14.2%	14.4%	15.3%
Return on Assets	0.7%	1.2%	1.4%	1.7%
Return on Equity	4.7%	8.2%	10.5%	13.0%

Gross credits grew by 6.6% in 2022, having accelerated from 1.9% in the previous year and a further 4.0% Ytd growth till June 2023. Improvement in economic conditions and higher credit growth reflected in gross non-performance declining to 6.6% from 7.3% and further to 6.2% as of June 2023 and net impairment in relation to total assets falling to 1.4% (2022: 1.6%, 2021: 1.7%).

According to the CBUAE Credit Demand Survey for Q2’23, strong credit conditions in UAE persisted with continued demand growth and banks’ increasing appetite to extend financing. Strength of the economy, property market outlook, customers’ sales, and fixed asset investment were key drivers of growth which collectively more than offset the impact of rising interest rates.

The liquidity profile of the sector also improved as evidenced by improving LCR and NSFR levels to 162.5% and 114.4% respectively as of June 2023 (2022: 155.9% and 111.1%). Sector wide capitalization levels also reflect sufficient buffers with CAR and CET-1 reaching 18.2% and 15.3% respectively (2022: 17.4% and 14.8%; 2021: 17.1% and 14.2%) owing to increasing profitability.

Net profit before tax grew by 34% YoY for 2022 and by a sharp 43% in H1’23 vis-a-vis H1’22, mainly on the back of wider margins and controlled impairment charges. Return on assets improved by around 20bps during 2022 to 1.4% and further to 1.7% in H1’23 period. In the second half of the year, rising funding costs could lead to a modest decline in profitability indicators which overall should be above the 2022 realizations. With the decline in policy rates as anticipated from the next year onwards, we expect return indicators to gradually decline and cost of risk to materialize at a slightly higher level than the current year. The banking sector books are considered strong enough to weather the effects.

RATING RATIONALE

Positive economic trends reflected onto the buffers of the banking sector…

Macroeconomic environment has been conducive with robust GDP growth in UAE, supported by increase in non-oil trade, favorable trends in real estate sector, and uplift in tourism. Outlook for the year 2024 is foreseen to be positive with robust growth anticipated in both oil and non-oil GDP. The indicators of the Banking sector have been thriving with solid economic activity translating into asset growth and lower impairments, higher rates bolstering profitability and hence the capital buffers of the Banking sector.

Accelerating growth and improving asset quality for DIB…

The Bank has been able to grow its assets and financing exposures comfortably above its full year guidance as of September 2023 with expansion in both corporate and retail sectors. Meanwhile, the decline in concentration to real estate sector is noted positively. Non-performance indicators maintained downtrend during 2022 and so far in 2023 with both lower impairment ratios and higher coverage. Favorable macroeconomic trends in UAE and Dubai in particular shall benefit the asset quality prospects of DIB as well as the relatively subdued and prudent growth in credit portfolio in the last couple of years. Meanwhile, strong provisioning on the back of solid profit generation would elevate the provision coverage further and help reduce the net impairment levels. On the downside, the introduction of corporate tax effective for financial years starting on or after June 2023 would pose risks particularly for private sector and hence imply higher credit risk environment whereas the higher for longer rate environment elevate risks for both corporate and retail clients. Overall, IIRA does not expect a significant increase in the credit risks for the next 18-month period.

Shift toward investment deposits; liquidity indicators intact…

In a higher rate environment, the deposit base of the Bank shows a relative shift into investment deposits. Liquidity indicators are intact with LCR at 166% and NSFR at 106%. A strong franchise has enabled a diversified deposit base, sustained market share, and well-established access to capital markets.

Core capital improved since our prior review on account of strong internal capital generation…

Strong profitability has led to high internal capital generation. As such, the Bank's capital buffers continued sustained upward trajectory, despite the higher cash dividend payout to shareholders and higher growth in risk weighted assets. CAR and CET-1 ratio stood at 18.1% and 13.6% as of September 2023 which signifies adequate cushions for the medium term.

Upward momentum in profitability was carried onto the year 2023…

After achieving strong increase in profitability on the back of wider margins during 2022, the Bank maintained positive momentum of profitability growth so far 2023 with more modest expansion in margins coupled with stronger growth in earning assets, healthy increase in fee & commissions income, and lower impairment charges. Outlook for the year 2024 will be shaped by broadly stable margins, higher earning asset base, and introduction of corporate tax.

Changes at the Board level; notable initiatives on the ESG front…

Two new board members one of whom is a female member were inducted in the ongoing year and brought gender diversity to the Board. Meanwhile, two new board level committees, Board Profit Distribution & Management Committee and Board Sustainability Committee commenced their functions this year, to supervise profit equalization & ESG implementation as per regulatory directives. As per its 2022-2026 strategy, the Bank continued to strengthen its control functions and disclosures improved further. On the environmental front, Dubai Islamic Bank published its Sustainable Finance Framework, instituted a Chief Sustainability Officer, and has issued two sustainable sukuk amounting USD1.75bn in the last 12-month period. Meanwhile, growth continues in its sustainable business driven by Green Vehicles and Corporate Green Financing, and the commitment to plant one tree for every new customer who opens a DIB account. The Shari'a Governance Framework remained broadly unchanged with a stable ISSC.

FINANCIAL ANALYSIS

Assets

Following a 3.6% contraction in 2021, aggregate asset base of the Bank has grown by 3.3% to AED288.2bn in 2022 and further to AED313.4 bn as of September 2023, denoting a year-to-date growth rate of 8.7%.

Table 5: Asset Mix

AED bn	2020	2021	2022	9M'23
Cash &Cash Equivalents	35.7	31.4	31.1	30.2
Financing Portfolio	196.7	186.7	186.0	199.0
Investment Portfolio	45.7	52.0	62.0	75.3
Other Assets	11.5	9.0	9.1	8.8
Total Assets	**289.6**	**279.1**	**288.2**	**313.4**

The financing portfolio did not show much traction, whereas investment exposures grew in 2022 and H1'23, and rose to 23.6% (2022: 21.5%, and 2021: 18.6%) of total assets. Higher than expected repayments of corporate credit exposures in an increasing rate environment and abundant liquidity, led to unexpected early settlements causing the slower pace in financing portfolio. However, year-to-date growth in financing exposures reached 7.0% as of September 2023 driven mostly by corporate financing. Further the Bank also took advantage of the rising rate environment to book new investments at higher rates.

Table 6: Investments

AEDbn / %	2020	2021	2022
Sukuk	35.4	41.8	52.2
Quoted Equity	0.2	0.3	0.2
Unquoted Equity & Inv.Funds	0.9	1.0	0.8
Financial Investments	**36.5**	**43.0**	**53.3**
JV&Associates	1.9	1.9	1.9
Development Properties	1.4	1.6	1.5
Investment Properties	5.9	5.5	5.3
Total Investments	**45.7**	**52.0**	**62.0**

Sukuk portfolio had grown by 24% in 2022 to AED52bn and further to AED66.2bn as of Sep'23 with government and FI segments comprising around 81% of the portfolio. As of September 2023, 38.9% of gross sukuk exposures pertain to GCC ex-UAE (2022: 31.5%), 35.85% to UAE (2022:39.4%), and 25.3% invested in issuances from non-GCC countries (2022: 29.1%). Development and investment properties comprised another 10.9% (2021: 13.6%) of investments, the fair value estimate of which stood at AED6.0bn (2021: AED6.2bn) vis-à-vis a book value of AED5.3bn.

The Bank underwrote gross new corporate financings of AED31bn in 2022, yet the total portfolio declined due to unexpected early settlements of AED21bn and on course repayments of AED14bn. In 9M'23, corporate financing portfolio grew to AED145bn (2021: AED134bn) as gross new financings amounted to AED37bn, up 85% YoY, while repayments and early settlements still came in at AED27bn. As of September 2023, corporate credit exposures mainly comprise the real estate sector at 24% (2022: 27%), government sector at 14% (2022: 17%), services at 21% (2022: 16%), and aviation sector at 11% (2022: 13%). Hence, the real estate segment in total portfolio has declined to 18% from 20% although concentration[9] in the financing portfolio rose as of June 2023 to 34.6% from 31%-32% range observed in the prior years. The acceleration of growth in Q3'23 was based on high quality clients in GCC, where the Bank will be focusing further, given the buoyant economic conditions in the region.

[9] The weight of top-20 financings in total financing portfolio.

As of September 2023, consumer financing portfolio includes home financing and personal financing as the largest sub-segments accounting for 44% and 34% of total retail portfolio whereas auto financing and cards constitute 17% and 5%. For Ytd growth in 2023, enhancement in the digital experience of customers supported the growth in mortgage and auto portfolios of the Bank.

Asset Quality

In the most recent reporting periods, asset quality indicators of the Bank have improved on the back of positive momentum in economic activity and prudent risk management practices. Total stage-3 exposures declined by 5.8% to AED13bn and gross impairment ratio softened to 6.7% at YE 2022, from 7.0% at prior year-end. Along with higher provision coverage, net stage-3 assets to total assets improved to 2.2% (2021: 2.5%). In 2023, net impairment ratio eased further to 1.8% with modest decline in nominal impairments. Improvement came mostly on account of the continued recoveries from NMC and NOOR POCI which led to a Ytd decline of 10% on their NPF accounts. These exposures collectively accounted for around 15.5% of total NPF exposures as of September 2023. On the other hand, there was 17% Ytd increase in stage-2 exposures as of June 2023, which could be indicative of moderate deterioration in asset quality going forward. Reflecting the underlying trends in asset quality, the cost of risk has eased to 74bps in 9M'2023 and down from 84bps for the full year 2022 (2021: 99bps).

Table 7: Asset Quality Indicators

AEDbn / %	2020	2021	2022	9M-2023
Gross Financing	205.1	195.6	194.8	208.3
Total Assets	289.6	279.1	288.2	313.4
Stage 3 Financings	12.1	13.8	13.0	12.9
Net Stage-3 Financings[10]	5.7	6.8	6.3	5.7
Net Stage-3 Financings/ Total Assets	2.0%	2.5%	2.2%	1.8%
Gross Impairment Ratio[11]	5.9%	7.0%	6.7%	6.2%
Net Impairment Ratio[12]	2.9%	3.7%	3.4%	2.9%
Stage-3 Provisioning / Stage-3 Financings	52.5%	50.4%	51.5%	55.6%
Total Provisions / Stage-3 Financings	69.7%	64.8%	67.7%	72.5%

While improving on a timeline, the Bank's asset quality indicators are slightly weaker than the sector averages of 6.6% at YE 2022, whereas net impairment on assets stood at 1.4%. The underperformance could be partly attributed to the NMC and Noor POCI in the absence of which there would be around 90bps decline in DIB's NPF level. Increased provision coverage was noted in both 2022and so far in 2023 with overall coverage[13] at 117% and provision coverage ratio standing at 84% as of September 2023 (2022: 110% and 78%; 2021: 102% and 72% respectively).

Despite the slowdown in GDP growth, generally favorable macroeconomic trends in UAE will be conducive to asset quality prospects of the Bank. Moreover, the relatively slow growth in credit portfolio in the last couple of years has likely kept the potential for significant escalation in risk levels at bay. Meanwhile, a prudently high charge-off rate continuing on the back of strong profit generation would likely increase

[10] Net Stage-3 Financings = Stage-3 Financings- Provisioning for Stage-3 Financings
11 Gross Impairment Ratio = Stage-3 Financings divided by Gross Financings
12 Net Impairment Ratio = Net Stage-3 Financings divided by Net Financings
[13] Overall Coverage Ratio is calculated as the sum of provisions held including regulatory credit risk reserve (if any) and collateral held relating to facilities individually determined to be impaired divided by non-performing financing.

provision coverage further. Downside risk stems in part from the introduction of corporate tax effective for financial years starting on or after June 2023, which would pose risks particularly for private sector and hence imply heightened credit risk in the environment whereas the 'higher for longer' rate environment, elevates risks for both corporate and retail clients. Overall, IIRA does not expect a significant increase in the credit risks for the next 18-month period.

Funding

Table 8: Funding Mix

AED'bn/ %	2020	2021	2022	9M-23
Total Customer Deposits	205.9	205.8	198.6	220.9
Bank and FI Funding	13.5	2.6	12.8	14.6
Sukuk	18.7	20.6	22.3	20.5
Total Funding Base	238.2	229.0	233.8	256.0
-Growth (y/y)[14]	26.4%	-3.9%	2.1%	15.0%

In 2022, aggregate funding base grew 2.1% YoY to AED 233.8bn despite the 3.5% contraction in deposit base, as the bank shed costlier deposits in a rising rate environment and FI funding posted sizable increase from a low base.

During the 9M'23 period, funding base has risen again with influx of deposits (+11.2% Ytd) whereas sukuk funding declined to the tune of 8.3%. As such, deposits comprised 86.3% of funding base, within which current and savings deposits at AED 82bn accounted for 37% of total deposits denoting gradual decline over 44% at year-end 2021 as the higher rate environment precipated a moderate shift to wakala (investment) deposits – a trend seen globally. At 40%, retail deposits indicated a largely diversified deposit base, with strong characteristics of persitence.

The Bank's access to capital markets remains well-established, with a further issuance of USD750mn in sustainable sukuk during Q4'22 and then made another issuance of the same to the tune of USD1bn during 2023.

Liquidity

Market liquidity conditions are favorable at present, and given DIB's cautious growth in business over the last 21 months, liquid assets cover the funding base at a higher 37.8% (2021: 32.1%) as of September 30, 2023. Meanwhile, the net financing to deposit ratio has remained range-bound 90.1% as of September 2023 during this period (2021: 90.7%).

Table 9: Liquidity Indicators

AED'bn/ %	2020	2021	2022	Q3'23
Liquid Assets[15]	71.2	73.4	83.5	96.7
Net Financings / Total Deposits	95.5%	90.7%	93.7%	90.1%
Liquid Assets /Total Funding	29.9%	32.1%	35.7%	37.8%
Liquid Assets /Total Assets	24.6%	26.3%	29.0%	30.9%

[14] For 9M-23 period, growth is given as 9M-23 over 9M-22.
[15] Cash and balances with central banks, dues from Banks & FI's, investment in sukuk, and quoted instruments

At 150% and 106% respectively, LCR and NSFR (2021: 136% and 102%) indicate robust liquidity buffers. In the same period, LCR and NSFR for the UAE Banking Sector also improved to 156% and 111% respectively (2021: 140% and 110%), indicating favorable liquidity conditions on a market-wide basis. In September 2023, LCR improved further to 166%, while NSFR remained stable at 106%.

Effective from April 2023, CBUAE has increased the reserve requirements for current account deposits to 11% from 7% as a step to normalize liquidity conditions vis-à-vis the easing actualized in the year 2020 in a response to Covid-19 triggered market conditions.

Capital Adequacy

Table 10: Capitalization Indicators

AED 'bn / %	2020	2021	2022	Sept 2023
Capital Adequacy Ratio	18.5%	17.1%	17.6%	18.1%
Tier 1 Ratio	17.3%	16.0%	16.5%	17.0%
CET1 Ratio	12.0%	12.4%	12.90%	13.6%
Net NPFs % Total Equity	13.3%	16.5%	14.3%	12.4%
Total Equity	43.1	41.5	44.0	46.0
Total Equity/Total Assets	14.9%	14.9%	15.3%	14.2%

The Bank's equity base improved to AED 44bn (2021: AED 41.5bn) on the back of strong profit generation and further to AED 46.0mn as of September 2023.

Meanwhile, total regulatory capital grew by 4.1% YoY to AED40.7bn. whereas aggregate risk weighted assets paced at a limited 1.2%, owing to increasing weight of sovereign and quasi-sovereign exposures. Consequently, the Bank's CAR improved to 17.6% (2021: 17.1%) while CET1 ratio rose to 12.9% (2021: 12.4%) as of December 2022. DIB's capitalization levels are broadly in line with UAE Islamic Banks aggregate CAR of 17.7%, while being modestly over the Banking Sector average of 17.3%, and well above the regulatory minimums of 13.5% and 7.0%, as directed by its D-SIB status, and inclusive of 50bps D-SIB buffer. In the first nine months of the year, CAR and CET1 increased to 18.1% and 13.6% respectively with healthy internal capital generation.

The Basel-3 leverage ratio for the Bank has increased to 12.9% in June 2023 from 12.6% in December 2022 and stood comfortably above the CBUAE minimum requirement of 3.5%. Considering that the Bank's near-term profitability prospects remain sound, and growth expectations are moderate, IIRA believes that DIB's internal capital generation will move in tandem with growth in risk-weighted assets, keeping CAR steady.

Profitability

Strong growth in net earnings was carried onto the year 2022 with robust growth in operating income and decline in impairment charges, translating into 26% increase in bottomline to AED 5,552mn. A return on average assets (ROAA) of 2.0% (2021: 1.5%) denoted a 50bps premium to the UAE Banking Sector average. In 9M'23 period, net earnings improved by a further 17.6% YoY to AED 4.8bn bringing the annualized return on assets further up to 2.1%.

Table 11: Profitability Indicators

AED'bn/ %	2020	2021	2022	9M'23
Net Core Income[16]	6.7	6.6	8.1	6.5
Net Income (Loss)	3.2	4.4	5.6	4.8
ROAA (%)[17]	1.2%	1.5%	2.0%	2.1%
ROAE (%)[18]	8.1%	10.4%	13.0%	14.3%
Spread	3.1%	3.0%	3.6%	3.4%
- Return on Financings & Sukuk Portfolio	4.7%	4.0%	5.1%	6.7%
-Cost of Funding	1.6%	1.0%	1.6%	3.3%%
Cost/Income Ratio (%)[19]	26.8%	24.9%	24.4%	24.7%

Reflective of a higher rate environment, the margin income in 2022 and 9M'23 made marked gains and constituted 77% and 76% of total income respectively, vis-a-vis 2016-2021 average of 70%. Around 40bps increase in margins was attributed to the higher rate environment and focus on current and saving account deposits on the one hand and relatively higher yielding retail business on the other. In 9M'23, net profit margin has improved modestly to 3.1% (2022: 3.0%) as the prevailing asset yields and higher growth in earning assets more than compensated for the rising cost of funds, even as depositors increasingly migrated to higher yielding investment accounts. Going forward, the pressure from the rising funding costs could be mitigated by improving asset yields as the upward repricing of financing portfolio will continue with the expectation of no rate cut by US FED at least until June 2024.

Total non-spread income declined by 15.1% to AED2.4bn with 3.3% drop in fee & commission income and notably due to absence of sizable gain on disposal of investments in Sukuk booked in 2021. The latter was an only AED 9mn gain in 2022 as against AED 416mn during 2021 as the rising rate environment limited opportunities to sell sukuk and realize gains. In the 9M-23 period, non-fund based income grew by 15.1% YoY with a 4.6% increase in fee & commissions income and more importantly with significant rise in income derived from investment properties as the positive real estate dynamics supported revenues.

Albeit registering 8.1% growth during the year 2022, the increase in operating expenses remained below revenue growth with efficiency improving to 25.2% from 27.3% and remaining range bound in the 3 quarters of the current year. General and administrative charges hiked more significantly by 15.3%, with investment in digitalization while staff costs increase was relatively softer at 4.7%.

Reflective of better asset quality trends, net impairment charges maintained the downtrend, reducing 14.1%. Cost of risk registered 84bps for the year 2022 with 15bps YoY decline and retreated further to 71bps during the 3 quarters of 2023. For the rest of the year, flattish or slightly better margins coupled with moderate growth in earning assets would likely be balanced by marginal increase in cost income ratio

[16] Net Core Income = Income from Islamic financing and investing transactions - depositors' and sukuk holders' share of profit
[17] Annualized for H1'22
[18] Annualized for H1'22
[19] Total cost base excluding depreciation divided by total net operating income

and higher cost of risk, with overall return indicators expected to remain largely stable. Going into the year 2024, margins could remain steady or modestly lower; however significant earning asset growth in 2023 will be supportive for spread income and profitability.

CORPORATE GOVERNANCE

As a listed bank in UAE, DIB operates in compliance with the governing laws of the UAE and applicable regulations and directives issued by the Central Bank of the United Arab Emirates ("CBUAE"), the Securities and Commodities Authority of the UAE ("SCA") and the Dubai Financial Market ("DFM").

The CBUAE's Corporate Governance Regulations, comprise provisions applicable to all licensed banks, including their subsidiaries, affiliates, and international branches. CBUAE regulations and standards cover areas such as expectations in relation to the board (responsibilities, composition and qualifications, structure and committees), senior management, compensation, risk management, internal controls, compliance, internal and external audit, financial reporting, outsourcing, Sharia governance and group oversight, disclosure and transparency.

The Bank's updated Code of Corporate Governance, updated as of December 2022, provides guidelines based on key corporate governance principles and practices adopted by DIB and identifies the responsibilities of the Board and its committees, Board members and senior management. The content of the Code includes, but is not limited to, a list of the management committees, establishes line of delegation of authority, showcases an overview of the framework relating to the control environment including risk management, Sharia governance, oversight of DIB's subsidiaries and affiliates, and governance policies.

The Bank's Corporate Governance unit is responsible for monitoring and assessing development regarding corporate governance, reviewing compliance regularly with the Code of Corporate Governance and in collaboration with group functions, providing Board Risk Compliance and Governance Committee updates on the Bank and its Group entities, in respect to governance matters on a periodic basis.

Board of Directors

The Board of Directors of the Dubai Islamic Bank comprises of nine directors in line with local regulations that require the number of members to be between 7 and 11 members, and also in members one of whom is a female member were inducted in the ongoing year and brought gender diversity to the Board. Meanwhile, two new board level committees, Board Profit Distribution & Management Committee and Board Sustainability Committee commenced their functions this year, to supervise profit equalization & ESG implementation as per regulatory directives.

Table 12: Board Composition

Name of Director	Classification/Affiliation	Asscociation with DIB since
H.E.Mohammed Al Shaibani	Chairman/Non-Executive	2008
Mr. Yahya Saeed Ahmed Nasser Lootah	Vice Chairman/Non-Executive	2011
Mr. Hamad Abdulla Rashed Obaid Al Shamsi	Member/Non-Executive	2014
Mr. Ahmad Mohammad Saeed Bin Humaidan	Member/Non-Executive	2008
Mr.Abdul Aziz Ahmed Rahma Mohamed Al Muhairi	Member/Non-Executive; ICD	2011
H.E. Hamad Buamim	Member/Independent/Non-Executive	2014
Mr. Bader Saeed Abdulla Hareb AlMheiri	Member/Independent/Non-Executive	2023
Dr. Cigdem Izgi Kogar	Member/Independent/Non-Executive	2023
Mr. Javier Marin Romano	Member/Independent/Non-Executive	2016

- **Independence:** CBUAE regulations prescribe one-third independent representation on the Board as well as the Chairman being independent or non-executive. We note four independent board members and non-executive Chairman, which satisfy relevant regulations. None of the Board members is a member of any other UAE Bank BoD
- **Directors' Orientation:** The induction of the Board members is overseen by Board Nomination and Remuneration Committee. Contents of the orientation program are comprehensive and include key issues regarding financial management and business operations. In 2023, Board members attended training sessions related to The Board role in managing ESG implementation, Safeguarding financial integrity in the global landscape, Organizational values & Corporate Culture, New Market Trends, Strategy, Products & Market Competition.
- **Evaluation of the Board:** The Board conducts its annual evaluation, its committees, and BoD members in line with the criteria mentioned in relevant laws and regulations. An external third party is engaged to conduct an independent assessment at least once every 5 years. The Board Nomination and Remuneration Committee recommends the approach for the annual evaluation to the Board for approval and oversees the evaluation process, ensuring compliance with the requirements laid down by CBUAE. During 2023, the Board commenced a self-assessment facilitated by the Hawkamah Institute for Corporate Governance.
- **Meeting frequency and attendance**: As per local regulations and DIB's CG Code, the Board shall meet at least six times each year. During 2023, the Board convened 10 times with an average attendance level of 98%.

- **Board Remuneration:** Board remuneration comprises fixed payment in relation to membership on the Board and committees and attendance fees. The aggregate amount of these components for each fiscal year is determined at the General Assembly meeting and may not exceed 10% of the Bank's net profit, after deducting depreciation and reserves. In 2022, total remuneration of the Board members was AED24mn (2021: AED24.5mn).
- **Board Committees:** There are six committees at the Board level: Board Audit Committee ("BAC"), Board Credit and Investment Committee ("BCIC"), Board Nomination and Remuneration Committee ("BNRC"), Board Risk Compliance and Governance Committee ("BRCGC"), and Board Profit Distribution & Management Committee ("BPDMC"). The Board Profit Distribution & Management Committee (BPDMC) and Board Sustainability Committee (BSC) commenced operations in 2023. Their role will be to assist the Board in oversight of displaced commercial risk and in providing sound monitoring function to ensure that profit equalization, including utilization of reserves (such as the profit equalization and investment risk reserves) and ESG strategy implementation are appropriately monitored. Each committee has its own Terms of Reference, and every committee shall have at least three members. According to the Corporate Governance Code of the Bank, all members of the BAC shall be Non-Executive Directors with at least two being independent; members of the BCIC may be non-executive or independent; members of the BNRC are to be Non-Executive with at least two being independent, and the members of the BRCGC must be Non-Executive with an independent majority. In addition, BAC and BRCGC should have at least one common member to support coordination. The Chairman of the Board shall not be appointed as a member of any Board committee. DIB's committee structure meets these criteria as well as satisfying global best practices for formation of committees.

Self-Regulation

Risk Management

Organization and Reporting: The Group Risk Management Department ("GRMD") is led by the Group Chief Risk Officer ("GCRO") who reports to the BRCGC and Group CEO, while maintaining close coordination with senior management and business functions.

Scope: GRMD is responsible for executing the Banks's overall risk management approach on a Group basis and implementing risk strategies and policies as approved by the Board; monitoring the Bank's risk profile; providing the Board and Senior Management with a Group-wide view of all material risks; integrating the ESG element into the Risk Management Framework as per a Board approved ESG risk policy; promoting a culture of risk awareness, prevention and management across the Bank.

The Risk Management Framework governs the Bank's risk appetite statement and spells out tolerance limits and policies and procedures to identify, mitigate, and manage material risks. Contingency planning and stress testing are further key risk monitoring mechanisms; relevant policies are approved by the

Board. The key objective of the function is to assure that the Bank operates within established risk appetite framework and notify the BRCGC of any breach of the approved risk limits.

Key Areas of Focus for upgrade: The Bank continued to strengthen the risk management practices including policy refinement, and upgrade of risk tools and methodologies instituted, to ensure enhanced responsiveness to the evolving risk environment, deepening risk management capacity enhanced awareness and ownership of risk within the first line of defense; and closer alignment of risk practices at subsidiaries and affiliates with the group risk framework and best practices**.** In addition, the customization of ESG scorecards for clients have been finalized. Meanwhile, subunits such as wholesale and retail were given full ownership of their models and as such the staff strength in risk modelling and validation has increased.

Group Compliance

Organization and Reporting: The Group Compliance Function is led by Group Chief Compliance Officer (GCCO) who reports administratively to the GCEO while having direct access to the BRCGC through comprehensive quarterly reporting. In addition, GCCO provides monthly updates to the management level Compliance Committee. Given the heightened focus on compliance and based on the requests from BAC, GCCO has also provided regular updates to the BAC in 2023, which is anticipated to continue also in 2024. The Function has been revamped significantly in 2022 with notable increase to headcount and system capabilities.

Adequacy of Scope: A Comprehensive Compliance Policy approved by the Board institutes authority and independence of the Compliance function. The scope of the Compliance Function includes coverage all applicable laws, regulations, and standards in coordination with relevant stakeholders; coordination with the Internal Shari'a Control Department (ISCD) regarding the outcomes of the Shari'a compliance monitoring activities undertaken by the ISCD; maintaining and enforcing bank policies pertaining to AML, combating terrorist financing and detection and reporting of any suspicious transactions; and undertaking steps and activities conducive to establishing a culture of compliance within the Bank. In addition, the Compliance Function coordinates with Group entities to monitor and report on compliance matters across the Group.

The Compliance Function is subject to an annual performance review by the BRCGC and an independent external quality assurance review at least once every five years.

Key Focus Areas during 2022 & 2023: During the year 2022 and so far in 2023, DIB has strengthened its compliance management with several initiatives comprising updating its AML, CFT, and KYC policies, supported by a revised KYC framework; enhancing compliance processes and systems; and enhancing compliance oversight of subsidiaries and affiliates. Specifically, the focus areas were FATCA/CRS compliance, trade-based money laundering, enterprise-wide compliance, heightened focus on Russia sanctions, against which policies, procedures, and technical capabilities were notably enhanced.

Internal Audit

Organization and Reporting: DIB's Group Internal Audit ("GIA") function is led by the Group Chief of Internal Audit who reports functionally to Board Audit Committee. Since our prior review, IIRA noted the unification of sub-divisions responsible for treasury and risk. In addition, the department has been in the process of strengthening its resources significantly with a target of increasing the staff strength to 49 from the current level of 38.

Scope: The roles and responsibilities of the GIA Function are defined in an Internal Audit Charter approved by the BAC. The IA Charter is subject to review at least once in every three years and its latest version became available in November 2022. Audit exercise is implemented as per the risk-based annual internal audit plan approved by BAC. The scope of GIA comprises all activities of the Bank and its subsidiaries, extending to audit of outsourced functions. The GIA coordinates with Group entities to enable the Function to provide assurance to the BAC on the quality and effectiveness of internal controls implemented within the Group.

The GIA is governed by the specific regulations related to Internal Audit as issued by the CBUAE, SCA, and the mandatory elements of the IIA's International Professional Practices Framework including its Standards, Core Principles, Definition of Internal Auditing, and the Code of Ethics.

Key Areas of Focus for Improvement: The initiatives pertaining to Internal Audit during 2022 and so far in 2023 included an update of audit methodology in line with global standards and best practices; providing internal and external professional development opportunities to the Internal Auditors; promoting the quality assurance mechanism to further improve the practices being followed. Meanwhile, close collaboration of Internal Audit and Internal Shari'a Audit functions has been maintained. In addition, the strengthening of oversight of subsidiaries and affiliates has been noted with GIA audit acting as an additional line of oversight of the subsidiaries and affiliates. The Function plans to execute ESG and sustainability focused audit by mid-2024.

Transparency

The financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the laws of the UAE including the UAE Companies Law of 2015 and the Decretal Federal Law No. (14) of 2018.

The Bank's disclosures on its webpage comprise an integrated annual report inclusive of Corporate Governance Report, Sustainability Report, annual financial statements, Annual Report of the Internal Shari'a Supervision Committee; Articles of Association; the Code of Corporate Governance; Sustainable Finance Framework; Internal Audit Charter; Pillar III Disclosures; quarterly investor presentations and audio recordings of quarterly earnings release webinars; agenda and resolutions of the General Assembly meetings; Zakat disclosures; and info pertaining to sukuk issuances. In addition, as a listed bank, timely material information is found at DFM disclosures. Overall, the disclosures are deemed to be strong as supported by a regulatory framework.

The financial statements for the year 2022 were audited by Deloitte & Touche which has provided an unqualified opinion on the bank's financials and has been assigned the audit of the year 2023 financial statements.

Sustainability

UAE was the first country in MENA region to commit to achieve net-zero emissions by 2050 and accelerating sustainability efforts ahead of the COP28 to be hosted in Dubai towards the end of the ongoing year. CBUAE executed a top-down climate risk stress test in the year 2022 focusing on climate-change transitional risks in the banking sector. Meanwhile, thematic reviews of CBUAE indicated that the progress in financial sector in terms of data collection procedures and in the governance framework for climate-related financial risks in addition to highlighting green and sustainable financial products that align with sector developments.

DIB was the first Islamic bank in UAE to launch its Sustainable Finance Framework to facilitate the financing of green and social initiatives and projects in 2022 followed by an issuance of USD750mn sustainable sukuk. In 2023, the Bank made another issuance of sustainable sukuk to the tune of USD1bn.

The Bank's initiatives on the sustainability front gained momentum in the years 2022 and 2023 whereby the Bank instituted a Chief Sustainability Officer, published its Sustainable Finance Framework, and focused on its portfolio of sustainable assets driven by Green Vehicles and Corporate Green Financing. It also announced that it will plant one tree for every new customer who opens a DIB account. DIB also signed the UAE Climate Responsible Companies Pledge and became an exclusive sponsor of Accelerate Her with DIFC Innovation Hub to empower next generation of female leaders.

Meanwhile, the Bank enhanced the DIB Sustainability Report for 2022 with improved disclosures and expanded coverage.

SHARI'A GOVERNANCE FRAMEWORK

CBUAE regulates the Islamic financial industry, subject to supervision of the Higher Shari'a Authority ("HSA"), established in 2018 to align the local regulatory framework with best practices. HSA implements best practices enhancing compliance with Shari'a and governance in the Islamic financial industry and issues resolutions and guidance about the adoption of new Shari'a compliant products to be offered to the customers by Islamic Financial Institutions ("IFI") considering the consumer protection principles and transparency requirements of Islamic products. Aside from setting the Shari'a standards for the banks across the Country and reviewing the new product structures, HSA is responsible for approving the annual Shari'a reports of the banks, the members of Internal Shari'a Supervision Committees, as well as the heads of the Internal Shari'a Control and Shari'a Audit functions.

Brief summary of Shari'a Governance framework for Islamic banks in UAE is as follows:

- IFIs must have Shari'a governance policies and mechanisms covering all their operations and activities to ensure compliance with Islamic Shari'a. The Board should maintain effective communication with the ISSC to discuss Shari'a compliance-related issues at least once a year. Furthermore, the Board's Risk Committee must monitor the management of Shari'a non-compliance risk and institute controls accordingly, in consultation with ISSC and through the internal Shari'a control division or section.
- ISSC's responsibilities include undertaking Shari'a supervision of all businesses, activities, products, contracts, documents, and code of conduct of the IFI; issuing fatwas and resolutions that are binding upon the IFI; monitoring through internal Shari'a control division and internal Shari'a audit. Also, reviewing and approving the method for calculation and distribution of profits, and for allocation of expenditures and costs and distribution thereof between investment account holders and shareholders, and review of annual accounts from Shari'a perspective, before presenting to CBUAE, falls within the scope of the ISSC. The ISSC also issues an annual report on IFI's compliance with Islamic Shari'a which is published as part of the financial statements. Furthermore, in case of Shari'a non-compliance, the ISSC must review and approve corrective measures.
- ISSC must meet at least four times in a given year with a period between two meetings not exceeding 120 days. In addition, the attendance of ISSC members must not be less than 75% of the total meetings held during a year.
- In coordination with the Chairman of ISSC, IFI must develop an evaluation system for ISSC.
- The internal Shari'a control division and internal Shari'a audit division must be separate in terms of reporting. The internal Shari'a control division or section should be responsible for the Secretariat of ISSC, providing consultation based on the ISSC's fatwas and resolutions, Shari'a Research & Development, Shari'a compliance, and Shari'a training. The internal Shari'a audit division executes Shari'a audits and monitors IFI's compliance with Shari'a. The internal Shari'a audit division is to biannually submit its reports to the ISSC and the Board audit committee.
- In order to ensure that profit equalization, including utilization of reserves such as PER and IRR, are appropriately checked and monitored, the Board must form an independent committee mandated to scrutinize the utilization of such reserves and to make appropriate recommendations to the Board. This Committee shall comprise at least three members: an

independent non-executive director (preferably chairing the Committee); a member of the Board; and a member of the ISSC.

Chapter 6 of the new Commercial Transaction Law of 2022 empowered the CBUAE's Board of Directors to issue bylaws and regulations on Shari'a-compliant contracts and products and services based on the HSA's recommendation to ensure comprehensive coverage of Islamic financial transactions.

In addition, CBUAE continued its work to enhance the standardization and harmonization of Shari'a compliant practices in the UAE under the guidance of HSA. CBUAE addressed several issues regarding the Islamic banking products comprising standardization and issuance of guidance regarding the Shari'a aspects of Sukuk, Repo transactions, and syndicated deals.

In the near future, HSA directives pertaining to Shari'a Compliance is expected to be issued.

DIB's Shari'a Governance Framework

The Bank complies with the above-stated standard. Accordingly, DIB's Shari'a Governance framework comprises ISSC as an apex body. Besides, Internal Shari'a Control Division ("ISCD") and Internal Shari'a Audit Division ("ISAD") have been established at the management level.

The Bank has been enhancing its Shari'a Governance Framework through various initiatives including but not limited to launching a framework for managing Shari'a non-compliance risks as part of the overall risk management framework; initiating an information system to measure, assess and report Shari'a non-compliance risk; and promoting Shari'a knowledge across the Bank through training sessions. In addition, the Shari'a control oversight of the subsidiaries and affiliates was noted. Meanwhile, the audit by HSA in the year 2023 yielded no material observations.

ISSC Composition & Membership

Table 13: ISSC's Composition

ISSC Members	Role
Dr. Mohamed Bin Ali Bin Ibrahim Elgari Bin Eid	Chairman
Dr. Mohamad Akram Bin Laldin	Member
Dr. Ibrahim Ali Abdulla Hamad Al Mansoori	Member
Dr. Muhammad Abdulrahim Sultan Al Olama	Member
Dr. Muhammad Qaseem	Executive Member

Compared to our prior review, ISSC remained stable. ISSC is led by Dr. Mohamed Bin Ali Bin Ibrahim Elgari Bin Eid and has five members. Its members are renowned Shari'a scholars and Islamic finance experts. The board nominates ISSC members to the general assembly for approval. Nominees are also subject to HSA approval. The term of the ISSC members is three years, with their appointment reconfirmed by the shareholders on an annual basis and there is no upper limit on the number of years members can serve on the ISSC. Among the five members of ISSC, one member has the role of an executive member who maintains constant interaction between the Internal Shari'a Control, Internal Shari'a Audit functions, and senior management to provide Shari'a-related guidance for urgent matters.

Meetings

ISSC convened 11 times during the year 2022 with full attendance by the members, and more than 3,000 matters were considered for guidance by the ISSC, its Executive Member and the ISCD. As per the Bank's Corporate Governance Code, ISSC shall meet at least four times in a given year with a period between any two meetings not exceeding 120 days.

Remuneration

The remuneration of ISSC members is determined by the Board of Directors and does not incorporate any performance-linked elements as per global best practices and local regulations.

Evaluation and Assessment

As per the local regulations, ISSC carries out annual evaluation of the ISSC as a whole and its members as per the regulations and standards set by the HSA. At the end of the year, the Chairman of the ISSC provides the Board and the HSA with a report on the performance evaluation.

Independence

To ensure independence, CBUAE has outlined minimum criteria for ISSC's membership. The Bank complies with the said requirement, ensuring no commercial relationship with ISSC members. Furthermore, ISSC affirms its independence under a statement in its annual report, submitted to the general assembly.

Report

ISSC prepares and submits an annual report to the General Assembly and HSA for approval which is published with the Bank's Integrated Annual Report and publicly available. ISSC's Report describes its responsibilities, the standards to which ISSC adheres to, duties fulfilled by ISSC during the year, its declaration of independence and finally states its opinion on compliance of the Bank's activities with Shari'a. For the year 2022, ISSC stated in its annual report that the Bank's activities during the year were in compliance with Shari'a.

Internal Shari'a Controls

Organization & Reporting: The Bank has instituted an Internal Shari'a Audit Department ("ISAD"), and an Internal Shari'a Control Department ("ISCD"). Both functions' heads report to the Board in accordance with the Shari'a Governance standards for IFIs and carry out their work in consultation with ISSC. The ISCD coordinates closely with Compliance and Risk Management functions and the ISAD closely coordinates with Internal Audit Function. The subdivisions of ISCD incorporate Shari'a review, documentation, training and research, compliance, and ISSC secretariat.

Scope, Role & Responsibilities: ISAD examines all activities, including financial statements and key departments, as well as the governance framework to ensure that the Bank is in compliance with Shari'a and ISSC guidelines as per annual audit plan approved by the ISSC and endorsed by the BAC. Full access to data and information is ensured and the department reports periodically. The responsibilities of ISCD comprise supporting the ISSC in complying with its mandate and regulatory requirements; providing consultation and advice based on the ISSC's fatwas and resolutions; reviewing Shari'a related inquiries and issues, contracts, documents and other matters related to DIB's business and documentation; monitoring the Bank's compliance with resolutions, fatwas, regulations and standards issued by the HSA; organizing training for employees related to compliance with Shari'a; and issuing quarterly Shari'a compliance report, which is to be reviewed by the ISSC and then submitted to the CEO. The Shari'a Compliance Unit under ISCD regularly supervises all processes in line with approved policies and procedures to mitigate Shari'a non-compliance risks and submits its quarterly reports to the ISSC and the Group CEO.

Income Purification

Shari'a Non-Compliant Income: Shari'a non-compliant income mainly comprises the income sourced from transaction execution related errors as determined by the Internal Shari'a Supervision Committee as well as late payment charges. This source of income as well as the zakat payments are disbursed for charitable purposes under the guidance of ISSC to DIB Foundation, an independent charity, following the close of annual accounts. In 2022, Shari'a non-compliant income amounted to AED3.3mn (2021: AED1.0mn), increasing partly on account of synchronization and integration of erstwhile Noor Bank with the processes and policies of DIB. The Bank disbursed AED13.3mn in the year 2022 (2021: AED7.8mn) for charitable purposes.

Zakat: On behalf of the shareholders, the Bank computes Zakat using AAOIFI's standard under the "Net Investment Funds Method", which is then approved by ISSC. Zakat on depositors' investment risk reserve is included in Zakat payable and is deducted from the depositors' investment risk reserve balance. Zakat payable was AED 429.3mn, including Zakat on depositor's investment risk reserves, at end 2022.

Shari'a Disclosures

The Bank's disclosures on Shari'a governance are comprehensive. Publicly available sources disseminate adequate disclosure about Shari'a governance framework of the Bank, responsibilities of ISSC, ISCD, and ISAD, ISSC composition, members' profile, meetings, detailed annual report, profit rates, Zakat, fatwa and publications, Shari'a non-compliant income and its disposal, and product related information.

IIRA Rating Scales & Definitions

Ratings on International Scale

Foreign Currency Ratings

The foreign currency ratings by IIRA measure the ability of the rated entities to service their foreign currency obligations. These ratings incorporate all the sovereign risks of a country, including the risk of converting local currency to foreign currency.

Local Currency Ratings

The local currency ratings by IIRA measure the ability of the rated entities to service their local currency obligations. These ratings incorporate all the sovereign risks of a country, except the risk of converting local currency to foreign currency.

Ratings on National Scale

The national scale local currency ratings assigned by IIRA are tiered against an assumed local government rating of 'AAA' and, therefore, do not incorporate all the sovereign risks of a country.

Issue/Issuer Rating Scale & Definitions

Medium to Long Term

IIRA uses a scale of AAA to D to rate credit worthiness of the issuer and long term issues, with AAA being the highest possible rating and D being the lowest possible rating.

AAA: Highest credit quality. Represent the least credit risk.

AA : High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A : Good credit quality. Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB : Adequate credit quality. Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB : Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B : Obligations deemed likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC : Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC : A high default risk

C : A very high default risk

D: Defaulted obligations

Note: IIRA appends modifiers + or - to each generic rating classification from AA through B. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier - indicates a ranking in the lower end of that generic rating category.

Rating Outlook : The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of rating change.

Rating Watch-list : IIRA places entities and issues on 'Watch-list' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). A 'Watch-list' announcement means that the status of the assigned rating(s) is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

Short Term

IIRA uses a scale of A1+ to C to rate credit worthiness of the issuer and its short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+ : Highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative source of funds, is outstanding and safety is just below risk free short-term obligations.

A1 : High certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A2 : Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A3 : Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B : Speculative investment characteristics. Liquidity may not be sufficient to ensure timely payment of obligations.

C : Capacity for timely payment of obligations is doubtful.

Fiduciary Rating Score

(91-100) – Very Strong Fiduciary Standards
(91-93), (94-97), (98-100)*
Rights of various stakeholders are well protected and the overall governance framework is strong.

(76-90) – Strong Fiduciary Standards
(76-80), (81-85), (86-90)*
Rights of various stakeholders are protected. Minor weaknesses have been identified in the overall governance framework.

(61-75) – Adequate Fiduciary Standards
(61-65), (66-70), (71-75)*
Rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

(40-60) – Basic Fiduciary Standards
(40-46), (47-53), (54-60)*
Rights of various stakeholders are relatively vulnerable. Significant weaknesses have been identified in the overall governance framework.

(Less than 40) – Low Fiduciary standards
Rights of various stakeholders are at high risk and the overall governance framework is weak.

**Apart from the lowest score range, all score ranges have been split into three sub-divisions for further clarity*

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