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Fiduciary Rating Report

# Dubai Islamic Bank P.J.S.C.

January 2025

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency
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# FIDUCIARY RATING REPORT

## Dubai Islamic Bank P.J.S.C.

**Report Date:**
January 29, 2025

**Analyst:**
Hasan Demir, CFA

| Credit Rating | Latest Rating (January 29, 2025) | Previous Rating (December 28, 2023) |
|---|---|---|
| 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 (January 29, 2025) | Previous Scores (December 28, 2023) |
|---|---|---|
| **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 | 81-85 |

**Company Information**

- **Incorporated** in 1975
- **Public Joint Stock Company**
- **Major Shareholders**: *As of Sep'24*
  Investment Corporation of Dubai – 27.97%
  Public, 72.03%
- **External Auditor** : Deloitte & Touche (M.E.)
- **Chairman:** H.E. Mohammed Al Shaibani
- **Group CEO**: Dr. Adnan Chilwan
- **Branches (Sep '24):** Domestic – 54.

## CORPORATE PROFILE

Dubai Islamic Bank P.J.S.C. ("DIB" or "the Bank") operates as a Shari'a compliant bank in the United Arab Emirates ("UAE" or "the Country"). It is designated a Domestic – Systemically Important Bank ("D-SIB"4) by the Central Bank of UAE ("CBUAE"), holding a 7.7% market share in terms of assets, and a 44.8% share within Islamic banking assets in the country. With its international presence in Pakistan, Kenya, Sudan, Indonesia, Turkiye, and Bosnia and Herzegovina, DIB has a global customer base of more than 5 million and a staff strength of over 9,000 personnel, as a Group.

**Table 1: Key Financial Indicators**

| AED bn / % | 2021 | 2022 | 2023 | 9M'24 |
|---|---|---|---|---|
| Total Assets | 279.1 | 288.2 | 314.3 | 329.2 |
| Net Financings | 186.7 | 186.0 | 199.5 | 206.8 |
| Deposits | 205.8 | 198.6 | 222.1 | 236.9 |
| Total Equity | 41.5 | 44.0 | 47.4 | 49.0 |
| Operating Income | 9.4 | 10.5 | 11.7 | 9.1 |
| Net Income | 4.4 | 5.6 | 7.0 | 5.4 |
| Cost/Income Ratio (%)[1] | 24.9% | 24.4% | 24.7% | 26.0% |
| RoAA (%)[2] | 1.5% | 2.0% | 2.3% | 2.3% |
| RoAE (%)[3] | 10.4% | 13.0% | 15.3% | 15.1% |
| Gross NPF Ratio (%) | 7.0% | 6.7% | 5.5% | 5.1% |
| CET1 CAR (%) – Basel III | 12.4% | 12.9% | 12.8% | 13.9% |
| Total CAR (%) – Basel III | 17.1% | 17.6% | 17.3% | 18.3% |
| Financing (Net) / Deposit Ratio (%) | 90.7% | 93.7% | 89.8% | 87.3% |

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 manages a broad portfolio of assets across a wide spectrum of sectors. Its global footprint extends to 86 countries and 55 investee companies with total asset size of AED1.3trn and shareholders' equity of AED311bn as of YE2023.

Dubai Islamic Bank's 5-year strategy spanning 2022-2026 envisages growth and strengthening of the Group. Oversight over subsidiaries has scaled up over the years and capacity enhancement in key control functions has been noted, both in terms of skills and technological systems, and accelerated ESG initiatives. Meanwhile, the Bank transitioned into the new core banking system during Q2'24.

## 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 recent years, there has been significant enhancement regarding the Group oversight of the key subsidiaries particularly vis-à-vis control functions.

Deyaar Development, DIB Pakistan, DIB Kenya, and Deyaar Development are the three main subsidiaries of the DIB Group. The Deyaar Development denoted around 2.1% of total asset base of the Group as of December 2023 whereas the DIB Pakistan and DIB Kenya accounted for around 1.8% and 0.2% respectively.

During the year 2023 and 9M'2024 there was a significant increase in the contribution of share of profit from associates and joint ventures given the benign performance of banking subsidiaries while the real estate subsidiaries' performance was boosted strong real estate market in UAE.

[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")

## Economic Review

**Table 2: UAE Macro Indicators**

| Figures as stated | 2021 | 2022 | 2023 | 2024F | 2025F |
|---|---|---|---|---|---|
| Real GDP Growth | 4.4% | 7.5% | 3.6% | 4.0% | 4.5% |
| Real Oil GDP Growth (%) | -1.1% | 8.5% | -3.1% | 1.3% | 2.9% |
| Real Non-Oil GDP Growth (%) | 6.5% | 7.1% | 6.2% | 4.9% | 5.0% |
| Average CPI (%) | 2.5% | 4.8% | 2.5% | 1.8% | 2.0% |
| Current Account Balance (% of GDP)[5] | 13.2% | 10.7% | 11.5% | 8.8% | 8.2% |
| General Government Debt (% of GDP)[6] | 36.3% | 32.1% | 32.4% | 31.4% | 31.3% |

GDP growth for UAE slowed down to 3.6% from 7.5% during 2023, on account of a 3.1% decline in hydrocarbon GDP (vis-a-vis 8.5% growth in 2022). Nonetheless, the non-hydrocarbon GDP growth remained strong at 6.2% (2022: 7.1%).

The Central Bank of UAE (CBUAE) projects real GDP growth of 4.0% for 2024, given a healthy non-hydrocarbon GDP growth (4.9% YoY) driven by tourism, transportation, financial and insurance services, construction and real estate, and communication sectors, whereas the hydrocarbon GDP growth is forecasted at 1.3% due to the extension of oil production cuts during the year. Growth is expected to accelerate to 4.5% in 2025, with respective growth of 5.0% and 2.9% for non-hydrocarbon GDP and hydrocarbon GDP.

Recent oil price weakening reflects global recession fears, however, EIA predicts muted decline in average price of Brent crude oil to USD 81 per barrel from USD82 during 2024 per barrel in anticipation of withdrawals from global oil inventories, whereas the 2025 outlook is softer with an expectation of USD74for a barrel of Brent crude oil, as global economy will likely continue to slow down and expanding electric vehicle fleet, weigh negatively on oil demand.

The CBUAE expects inflation to average 2.0% in 2025, remaining slightly above current year-end forecasts driven mainly by non-tradeable components of the consumer basket which shall be partially compensated by moderating energy prices.

CBUAE has kept its key policy rate (Base Rate) unchanged from July 2023 until September at 5.4% in line with Federal Reserve's Interest on Reserve Balances rate and thereafter reduced it to 4.4% as of December 2023. Going forward, the cumulative 100bps cuts in the September-December 2024 period as well as the expected rate cuts during 2025 should be supportive for the non-oil sector growth and credit demand in UAE.

The real estate sector maintained positive performance during 2024 with 2.3% and 34.8% respective increase in Abu Dhabi and Dubai residential real estate transactions as of June 2024. On the rental side, respective rental apartment indices depicted 6.6% and 10.1% improvements over H1'23.

[5] IMF forecasts
[6] IMF forecasts

During 2024, the tourism sector in Dubai continued to be robust, as the total number of visitors in H1'24 period depicted a growth of 8.9% vis-a-vis H1'23. There was a 1ppt increase in hotel occupancy rate to 78.7% and tourism sector growth supported hospitality, retail, and transportation sectors.

## UAE Banking Sector

**Table 3: UAE Banking Sector Indicators**

| Figures as stated[7] | 2021 | 2022 | 2023 | 9M'24 |
|---|---|---|---|---|
| Gross Assets (AED'bn) | 3,322 | 3,668 | 4,071 | 4,402 |
| Gross Financings (AED'bn) | 1,916 | 2,042 | 2,042 | 2,383 |
| Gross NPF Ratio | 7.3% | 6.6% | 5.3% | 4.7% |
| LCR | 140.3% | 155.9% | 160.8% | 153.2% |
| Capital Adequacy Ratio | 17.1% | 17.4% | 17.9% | 18.6% |
| CET-1 Ratio | 14.2% | 14.4% | 14.9% | 15.5% |
| Return on Assets | 1.2% | 1.4% | 2.0% | 2.1% |
| Return on Equity | 8.2% | 10.5% | 14.8% | 14.7% |

Total assets of the UAE banking sector had grown 8.1% Ytd[8] by September'24 and the Islamic banking assets denoted 17.5% of total sector assets. Driven by the UAE's long-term growth ambitions, and continuous growth in population supported by easier visa regimes, as well as strong growth in services activity, most banks have raised their growth guidance for 2024, and some also for 2025, following the release of Q3'24 financial statements.

As of September 2024, domestic credit comprised about 86.0% of total gross credits. After growing by 6.0% in 2023, gross credits had expanded by 8.7% till September 2024.Around 26.7% of total domestic credit is extended to government and GRE exposures.

Registering a Y-o-Y growth rate of 13.5% during 2023, total deposits funded 61.9% of the banking sector assets. During 9M'24, the y-t-d deposit growth was 9.5%, with government & GRE deposits accounting for 24.5% of total deposits.

Driven mainly by the strong internal capital generation, the aggregate capitalization indicators of the UAE banking sector remained healthy, as the Capital Adequacy ratio for the Conventional and Islamic banks stood at 18.3% and 18.0% respectively. UAE banking system's funding and liquidity conditions remained conducive for growth with double-digit resident deposit growth. The liquidity and funding ratios were above the minimum regulatory thresholds with Liquidity Coverage Ratio at 160.2% and the Net Stable Funding Ratio at 112.1% as of YE2023.

In terms of asset quality, improved economic conditions were reflected in lower gross impairment as the gross NPF ratio eased to 5.9% from 7.3% and net NPF ratio improved to 2.4% from 3.0%.

Profitability performance of the sector is favorable with healthy volume growth, high margins, and lower provisioning charges, amidst improved business conditions. In 2025, relatively lower rates should lead to

7 CBUAE, Financial Soundness Indicators (Core FSIs) - UAE Banking Sector
8 Year-to-date

slight erosion in margins which would be compensated for by strong business growth and sustained asset quality.

As announced during COP28 by the UAE Banks Federation, the financial sector in UAE pledged to mobilize AED 1trn in sustainable finance by the year 2030. Following the UAE's hosting of COP28, banks have reaffirmed their commitment to sustainability, by incorporating ESG criteria into their financing policies as well as issuing detailed and comprehensive ESG reporting.

## RATING RATIONALE

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

Maintained positive macroeconomic trends precipitate favorable performance posted by the banking sector in UAE into the year 2024, with accelerated volume growth, improvement in asset quality indicators, enhanced capital buffers, strong liquidity position, and positive momentum in profitability. Looking ahead, positive trends will likely persist in 2025, despite the slight contraction expected in margins, in a declining policy rate environment, as continued volume growth, healthy non-funded income generation, and contained provision charges support net earnings.

***Asset quality improved further during 2024…***

Total assets of DIB grew by 4.7% during 9M'24 to AED329.2mn, following 9.0% annual growth for 2023. The gradual shift in asset allocation towards marketable securities portfolio continued during 2023 and 9M'24 with increased allocation to Sukuk. Financing growth at 3.7% YTD in 2024, was driven by both corporate and retail sectors. Decreasing concentration to real estate sector over a timeline is well-noted.

Improvement in asset quality was carried into the year 2023 with improvement in UAE macroeconomic indicators and a prudent risk strategy. Gross impairment ratio was markedly lower at 5.5% (YE2022: 6.7%) at YE 2023, further falling to 5.1% in the 9M'24 period, as settlement on the NMC exposure, led to a decline of AED 0.5bn in stage-3 financings. Another long-standing non-performing exposure was also settled in the current quarter, with the quantum of stage-3 financings easing further to AED 9.4bn. Going ahead, strong economic activity in UAE, coupled with the expected rate cuts, augur well for asset quality prospects, although a concentrated financing portfolio and increasing exposure to retail financing, pose downside risks for the asset quality prospects.

***Shift toward investment deposits; liquidity indicators intact…***

With around 72% of assets being funded by deposits as of September 2024, and having a relatively more diverse deposit base, the funding profile of DIB suggests stability. In the 9M'24 period, the proportion of CASA deposits in total deposits improved by around 150bps. Despite registering a decline so far in 2024, LCR at 140% and an NSFR of 105% denotes healthy liquidity.

***Capital buffers uplifted further during 2024…***

As of September 2024, the Bank's CET1 improved by around 110bps to 13.9% whereas CAR rose by 100bps to 18.3% from YE23 levels, despite a much higher cash dividends as profitability remained strong.

Considering positive near-term outlook on profitability, Dubai Islamic Bank is considered to be adequately capitalized to leverage growth opportunities. Steady internal capital generation will support the capitalization profile in the medium term.

***Robust profitability performance despite the higher corporate tax…***

In 2023, DIB posted net profit of AED7bn marking a 26.3% increase YoY, driven by around 11% increase in net operating revenues in a high-rate environment and healthy balance sheet growth coupled with lower impairment charges. Consequently, the return on average assets (RoAA) improved by around 30bps to 2.3%. In the 9M'24 period, YoY net profit growth slowed down to 13.0% with net earnings after tax of AED 5.4bn, driven by a 6.3% increase in operating income, on the back of strong growth in non-funded income and a 62.4% decrease in impairment charges owing to notably better asset quality trends. Profitability during 2024 was impacted by the higher corporate tax implementation with pre-tax net earnings being 23.1% higher vis-a-vis 9M'23.

***Board of Directors remained stable; enhancement of control function in line with medium-term strategy maintained in 2024…***

No changes were noted in the Bank's Board of Directors, which features more than one-third independent representation and operates with six committees. In line with DIB's strategic priority of enhancing control functions, there has been uplift to the capacity and skill sets of control functions recently.

***Changes in Shari'a Board is noted…***

Internal Shari'a Supervision Committees ("ISSC") has four members vis-a-vis five at the time of prior review. The Bank is in the process of filling the positions pending regulatory approvals as well as hiring two trainee members for ISSC as per recent directives of Higher Shari'a Authority of CBUAE. Meanwhile, vacancies have been noted in the Group Internal Shari'a Control Function.

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## Financial Analysis

### Asset Mix

**Table 4: Asset Mix**

| AED bn | 2021 | 2022 | 2023 | 9M'24 |
|---|---|---|---|---|
| Cash &Cash Equivalents | 31.4 | 31.1 | 28.5 | 24.9 |
| Financing Portfolio | 186.7 | 186.0 | 199.5 | 206.8 |
| Investment Portfolio | 52.0 | 62.0 | 78.1 | 88.1 |
| Other Assets | 9.0 | 9.1 | 8.2 | 9.4 |
| **Total Assets** | **279.1** | **288.2** | **314.3** | **329.2** |

Total assets of DIB grew by 4.7% during 9M’24 to AED329.2mn following 9.0% annual growth in 2023. The gradual shift towards investment portfolio was maintained during 2023 and 9M’24 periods with growth in sukuk exposures so that the share of investments in total assets improved to 26.7% in September 2024 (YE2023: 24.9%, YE2022: 21.5%). On the other hand, financing portfolio denoted 62.8% of assets in 9M’24 (YE2023: 63.5%, YE2022: 64.5%).

Having grown by 30.5% to AED68bn in 2023, sukuk exposures increased to AED79bn with a Ytd growth of 15.9%. Sukuk portfolio is dominated by government exposures to the extent of 69%, followed by services and FIs at 17% and 10% respectively.

As of September 2024, corporate exposures made up 70% of financings and dominated the portfolio. Corporate financings grew by 7% YoY to AED143bn as of YE2023, with gross new financings amounting to AED45bn, up 45% YoY, whereas repayments and early settlements registered AED37 billion, which limited portfolio growth. Within the corporate portfolio, real estate and services sectors made up the largest two sector components at 24% (down from 27%) and 22% (up from 16%) respectively, while the government and aviation segments comprised 15% and 10% of the portfolio (2022: 17% and 13%) respectively. Year-to-date in 2024, there was around 3% increase in corporate financings to AED145.6bn and the proportion of real estate decreased notably to 20%. Services, real estate, and government exposures constituted around 58% of portfolio as of September 2024 (vs. 61% in December 2023). Gradual reduction in concentration in real estate sector over a timeline is well noted.

After growing by 8% to AED56bn during 2023, the consumer portfolio has expanded further by 9% Ytd to AED61bn as of September 2024 and is dominated by home financings to the tune of 42%, followed by personal finance and auto finance at 34% and 18% respectively.

After expanding its financings and sukuk portfolio by 12% in 2023, the management of the Bank had provided guidance for 5.0% growth during the ongoing year, yet as Ytd growth already stood at 7% as of September 2024, owing to gross new underwriting of AED68.7bn  and hence risks to the guidance are on the upside.

In the medium term, the growth of earning assets will also be supported by DIB’s appetite for credit and sukuk underwriting for GCC sovereign and quasi-sovereign exposures.

## Asset Quality

Improving trends in asset quality carried onto 2023 with the uplifting UAE macroeconomic indicators and DIB's cautious risk strategy. Accordingly, total quantum of stage-3 financings has declined to AED11.5bn from AED13.0bn depicting YoY decrease of 11.5% and reflective of AED1.2bn reduction in core banking NPFs and around AED0.3bn lower NPFs stemming from Noor POCI and NMC. Hence, the gross impairment ratio was markedly lower at 5.5% (YE2022: 6.7%).

**Table 5: Asset Quality Indicators**

| AEDbn / % | 2021 | 2022 | 2023 | 9M'24 |
|---|---|---|---|---|
| Gross Financing | 195.6 | 194.8 | 208.4 | 215.0 |
| Total Assets | 279.1 | 288.2 | 314.3 | 329.2 |
| Stage-3 Financings | 13.8 | 13.0 | 11.5 | 11.0 |
| Net Stage-3 Financings | 6.8 | 6.3 | 4.8 | 5.0 |
| Net Stage-3 Financings/ Total Assets | 2.5% | 2.2% | 1.5% | 1.5% |
| Gross Impairment Ratio[9] | 7.0% | 6.7% | 5.5% | 5.1% |
| Net Impairment Ratio[10] | 3.7% | 3.4% | 2.4% | 2.4% |
| Stage-3 Provisioning / Stage-3 Financings | 50.4% | 51.5% | 58.1% | 54.7% |
| Total Provisions / Stage-3 Financings | 64.8% | 67.7% | 77.4% | 74.4% |

In the 9M'24 period, there was a further decrease of around AED0.5bn in stage-3 financings on account of the settlement with NMC, causing the gross impairment ratio to ease to 5.1%. Indeed, just after the close of the third quarter, there was further settlement with another legacy client, taking the quantum of stage-3 financings down to AED9.4bn.

Asset quality indicators derived support also from the enhanced provisioning coverage whereby the stage-3 ECL provisions to Stage-3 financings increased to 58.1% at YE2023 (YE2022: 51.5%) before reducing to 54.7% in September 2024. Accordingly, net impairments in relation to total assets reflected a decline to 1.5% in December 2023 (YE2022: 2.2%) and remained stable as of September 2024. On a positive note, total coverage inclusive of collaterals improved to 132% as of September 2024 from 121% in December 2023.

Meanwhile, there was notable improvement in stage-2 exposures, with gross amount reducing by 8.1% in 2023 and further by 13.0% Ytd as of September 2024 as few accounts recovered in terms of performance and moved to stage-1. Consequently, the share of stage-2 financings in total gross financings reduced to 5.8% vis-a-vis 8.0% in YE22 and 6.9% in YE23.

Going ahead, strong economic activity in UAE, coupled with the expected rate cuts bode well for the asset quality prospects whereas concentrated financing portfolio and increasing exposure to retail financing would pose downside risks for the asset quality prospects.

[9] Gross Impairment Ratio = Stage-3 Financings divided by Gross Financings
[10] Net Impairment Ratio = Net Stage-3 Financings divided by Net Financings

## Funding

**Table 6: Funding Mix**

| AED'bn/ % | 2021 | 2022 | 2023 | 9M'24 |
|---|---|---|---|---|
| Total Customer Deposits | 205.8 | 198.6 | 222.1 | 236.9 |
| Bank and FI Funding | 2.6 | 12.8 | 13.0 | 6.2 |
| Sukuk | 20.6 | 22.3 | 20.5 | 24.2 |
| Total Funding Base | 229.0 | 233.8 | 255.5 | 267.2 |
| -Growth (y/y)[11] | -3.9% | 2.1% | 9.3% | 4.4% |

Funding base growth accelerated to 9.3% in 2023 from 2.1% a year earlier, reflected mostly inflows to investment deposit accounts. Total customer deposits have expanded 11.8% to AED 222.1bn and corresponded to 86.9% of the funding base vis-a-vis 85.0% at YE2022. On the other hand, the balance of funds from sukuk issuances declined by 8.3% YoY and denoted the 8.0% funding base (YE2022:9.6%). With yearly growth of 1.2%, the funds sourced from banks and FIs represented 5.1% of total funds (YE2022: 5.5%).

In the 9M'24 period, the growth of the funding base has modestly decelerated to 4.4%, whereas the funding profile improved, with customer deposits making up 88.6% of total funds, following a Ytd deposit growth of 6.7%. Following notable increase in sukuk funding, its respective weight in total funds rose to 9.0% whereas the FI funding declined to 2.3% of aggregate funding sources.

Given mostly the corporate segment accounts, there was an improvement to the tune of 150bps in the share of CASA deposits in total deposits, to over 38% as of September 2024. On the other hand, the proportion of investment deposits has declined to 61.6% Ytd.

In terms of business segments, deposits growth during 2024 was driven mainly by wholesale (corporate & government) segment to comprise 62% of total deposits, up from 60%, while the share of retail reduced to 38% from 40%.

With top 20 depositor accounts denoting 30.3% of total deposits as of YE2023, the deposit base is deemed to be concentrated, reflecting also the UAE banking sector trends.

Funds sourced from sukuk issuances increased by 18.0% y-t-d to AED24.2mn to and the growth was mainly due to the issuance of USD1bn sustainable sukuk during Q1'24.

## Liquidity

**Table 7: Liquidity Indicators**

| AED'bn/ % | 2021 | 2022 | 2023 | 9M'24 |
|---|---|---|---|---|
| Liquid Assets | 73.4 | 83.5 | 96.9 | 104.2 |
| Net Financings / Total Deposits | 90.7% | 93.7% | 89.8% | 87.3% |
| Liquid Assets /Total Funding | 32.1% | 35.7% | 37.9% | 39.0% |
| Liquid Assets /Total Assets | 26.3% | 29.0% | 30.8% | 31.6% |

On the regulatory front, CBUAE has further increased the reserve requirements for current account deposits to 14% from 11% effective from June 2024, as part of its phased exit strategy from the Targeted Economic Support Scheme.

[11] For 9M'24 period, the growth is expressed over 9M'23 figure.

Improved liquidity conditions in UAE along with prudent growth strategy of the Bank is reflected in DIB's liquidity indicators as well, in the last couple of years with coverage of funding base via liquid assets edging up gradually to 39.0% as of September 2024 vis-a-vis 32.1% at YE2021 (YE2023: 37.9%). Similarly, the financing to deposit ratio has come down to 87.3% in September 2024 (YE2021: 90.7%).

Following a sharp increase to 189% at YE2023 from 150% at the end of prior year, the Liquidity Coverage Ratio (LCR) declined to 140% as of September 2024 yet remains well above the regulatory thresholds. Meanwhile, the NSFR stood at 105% as of September 2024 vis-a-vis 106% in December 2023.

The trend in the Bank's liquidity indicators reflects sector wide trends whereby UAE banking system's LCR and NSFR increased to 161% and 112% respectively (2022: 156% and 111%).

## Capitalization

**Table 8: Capitalization Indicators**

| AED 'bn / % | 2021 | 2022 | 2023 | 9M'24 |
|---|---|---|---|---|
| Capital Adequacy Ratio | 17.1% | 17.6% | 17.3% | 18.3% |
| Tier 1 Ratio | 16.0% | 16.5% | 16.1% | 17.1% |
| CET1 Ratio | 12.40% | 12.9% | 12.8% | 13.9% |
| Net NPFs % Total Equity | 16.5% | 14.3% | 10.2% | 10.1% |
| Total Equity | 41.5 | 44.0 | 47.4 | 49.0 |
| Total Equity/Total Assets | 14.9% | 15.3% | 15.1% | 14.9% |

Having improved to AED47.4bn from AED44.0bn during the year 2023, the total equity of the Bank increased to AED49.0bn in 9M'24 owing to strong internal capital generation despite notably higher cash dividend payment. Meanwhile, the paid-in capital remained stable at AED7.2bn. The Bank has paid 45% of paid-up capital as cash dividend to shareholders which amounted to AED3.3bn as opposed to 30% of paid-up capital at AED2.2bn in the year earlier.

Tier-1 capital and Common Equity Tier-1 capital account for 93.7% and 76.3% of DIB's regulatory capital base as of September 2024 (93.4% and 74.1% as of December 2023). On October 2024, the Bank issued USD500mn AT-1 Sukuk with a profit rate of 5.25% per annum.

While total regulatory capital base of the Bank rose to AED47.3bn as of September 2024 denoting 10.1% Ytd growth following 5.4% increase in 2023. On the other hand, growth in total risk weighted assets (RWAs) was registered at 7.4% for 2023 and only 4.0% Ytd as of September 2024, given relatively modest financing growth for the period. Consequently, total CAR and CET-1 ratios improved to 18.3% and 13.9% respectively as of September 2024 with CAR being comfortably in excess of DIB's regulatory threshold of 13.5% inclusive of capital conservation buffer of 2.5% and D-SIB buffer of 0.5%.

The improvement in capital buffers was similar to the UAE Banking Sector trends although DIB outperformed the average strengthening of sector capital buffers, which demonstrated 70bps and 60bps increase in for CAR and CET-1 ratios respectively.

On a similar note, the Basel-3 leverage ratio of the Bank has improved to 12.8% as of September 2024, from 12.1% in December 2023. exceeding the regulatory threshold of 3.5% by a comfortable margin.

The Bank is adequately capitalized to leverage growth opportunities and continued healthy internal capital generation will likely support the capitalization profile in the medium term.

## Profitability

**Table 9: Profitability Indicators**

| AED'bn/ % | 2021 | 2022 | 2023 | 9M'24 |
|---|---|---|---|---|
| Net Core Income[12] | 6.6 | 8.1 | 8.7 | 6.4 |
| Net Income (Loss) | 4.4 | 5.6 | 7.0 | 5.4 |
| ROAA (%)[13] | 1.5% | 2.0% | 2.3% | 2.3% |
| ROAE (%)[14] | 10.4% | 13.0% | 15.3% | 15.1% |
| Spread | 3.0% | 3.6% | 3.4% | 2.9% |
| - Return on Earning Assets | 4.0% | 5.1% | 6.8% | 7.0% |
| -Cost of Funding | 1.0% | 1.6% | 3.4% | 4.0%% |
| Cost/Income Ratio[15] (%) | 24.9% | 24.4% | 25.3% | 26.0% |

In 2023, DIB posted net profit of AED7bn marking a 26.3% increase YoY driven by around 11% increase in net operating revenues in a high-rate environment and in tandem with healthy balance sheet growth, leading to 8.0% expansion of net core income. A 33.6% decline in impairment charges also supported profitability. Consequently, the return on average assets (RoAA) improved by around 30bps to 2.3%.

In the 9M'24 period, YoY growth in net earnings after tax slowed down to 13.0% to AED5.4bn (9M'23: AED4.8bn) with 6.3% increase in operating income underpinned mainly by growth in non-funded income and 62.4% decrease in impairment charges, owing to notably better asset quality trends. However, profitability during 9M'24 was impacted by the higher corporate tax implementation with pre-tax net earnings being 23.1% higher vis-a-vis 9M'23.

Following a sharp increase during 2022, net profit share margin was only slightly up to 3.1% for 2023 as funding cost caught up with higher prevailing rates. As a result, net core income[16] was up by 8.0% YoY to AED8.7bn and corresponded to 75.0% of total operating income (2022: 77.4%). During the first nine months of 2024, there was modest contraction in net profit share margins by around 10bps as the cost of funding remained elevated. Going into the last quarter of 2024 and 2025, the rate cuts would negatively impact the margin outlook, yet the bank will likely be able to defend (and possibly improve) margins, supported by the higher weight of relatively higher yielding retail financings in the portfolio and increasing proportion of fixed rate sukuk assets, as well as higher share of less costly deposits in funding mix.

In 2023, earnings derived strong support from ancillary income, which mainly comprised commissions, fees and foreign exchange income, income from properties, and from subsidiaries and affiliates, which collectively grew by 23.4% on YoY basis, as opposed to the 15.1% decline in the preceding year. Denoting over 61% of total ancillary income base, commissions, fees and foreign exchange income, increased by an expanded 12.1% on the back of 14.9% growth in fees & commission, while FX income rose modestly by 1.8%. On the other hand, surging by 67.5% and 49.4% respectively, income from subsidiaries and affiliates and income from investment properties helped the strong growth in ancillary income. During the 9M'24 period, ancillary income posted a further increase of 30.6% vis-a-vis 9M'23, also on the back of property income and income from subsidiaries and affiliates, which surged 150.6% and 125.5%. Superior performance in income from investment properties was driven by a robust real estate market whereby

[12] Net Core Income = Income from Islamic financing and investing transactions - depositors' and sukuk holders' share of profit
[13] Annualized for 9M'24
[14] Annualized for 9M'24
[15] Depreciation of investment properties and depreciation of property and equipment excluded from cost base while calculating the Cost/Income Ratio
[16] Return from financing and investing assets (Including Sukuk) minus the funding costs

the Bank was able to dispose of its legacy assets at favorable rates. As a result, the share of ancillary income in total operating income improved to 29.3% in 9M'24 vis-a-vis 23.8% in 9M'23. On the costs front, total operating expenses upped by 15.7% to AED3.2bn with slower increase for staff costs at 8.9% and 27.5% surge in G&A expenses reflective of the investments in digitalization, and control infrastructure as well as technology improvements. Therefore, the efficiency ratio (whereby the depreciation and amortization are excluded from expenses) slightly increased to 25.3% from 24.4%. In 9M'24, total costs were further up by 12.9% driven by 17.1% rise in personnel expenses, bringing the efficiency ratio for the period to 26.0% vis-a-vis 24.7% for 9M'23.

Having decreased by 33.6% in the year 2023, net provisioning charges continued to trend lower in 9M'24 with 62.4% reduction compared to 9M'23 period, owing to favorable asset quality trends. Consequently, the cost of risk during 9M'24 stood at only 26bps, notably lower than 57bps for the full year 2023. IIRA expects cost of risk to tend towards normalization in 2025, however, it is likely to remain modestly below its over the cycle levels of 70bps-80bps, given the favorable macro-outlook for UAE and DIB's prudent risk management practices.

Overall profitability for 2025 will be determined mainly by the size of the rate cuts for which the outlook is uncertain, partly due to geopolitical risks whereas business volume growth and non-funded income growth could at least partly mitigate for reduction in yields of earning assets.

## 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").

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, Shari'a 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 indicates the management committees to be set up, establishes line of delegation of authority, showcases an overview of the framework relating to the control environment including risk management, Shari'a governance, oversight of subsidiaries and affiliates, and governance policies.

The Bank's Corporate Governance unit is responsible for monitoring and assessing all developments regarding corporate governance, including reviewing compliance 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

Currently, the Board of DIB comprises nine directors in line with the Bank's Articles of Association and Code of Corporate Governance. This is compliant with the local regulations that require the number of members to be between seven and eleven. There has been no change in Board composition since the IIRA's previous review. As per the Bank's Code of Corporate Governance the majority of Board members shall be UAE nationals and all of them shall be non-executive directors, which is in line with applicable local laws and regulations.

**Table 10: 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 | 2011 |
| **Mr. Ahmad Mohammad Saeed Bin Humaidan** | Member/Non-Executive | 2008 |
| **Mr.Abdul Aziz Ahmed Rahma Mohamed Al Muhairi** | Member/Non-Executive | 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 direct one-third independent representation on the Board and requires further that the Chairman should be independent or non-executive. Four independent members on DIB's BoD, and a non-executive Chairman satisfy relevant regulations. In addition, none of the Board members is represented on the BoD of any other UAE Bank.
**Directors' Orientation:** Overseen by the Board Nomination and Remuneration Committee (BNRC), there is a comprehensive induction program for the new Board members comprising the Bank's vision, strategy, and structure; the governance framework and issues relevant to the legal, regulatory and macroeconomic environment. Also included are the Directors' Code of Conduct, Terms of References, policies and processes applicable to the Board members, and key issues, risk management framework, internal control system, financial management and business operations.

  In addition, a continuing education program for Board members is in place and is reviewed annually taking into account the outcomes of the Board's annual assessment, DIB's strategy, market/industry developments, pertinent risk areas and other emerging topics.

- **Evaluation of the Board:** The Board has committed to undertaking an assessment of itself, its committees and directors on an annual basis. The BNRC is responsible for presenting recommendations to the Board, regarding the approach for the assessment and oversees the process, ensuring compliance with the requirements prescribed by the CBUAE.

- **Meeting frequency and attendance**: As per local regulations and DIB's Code of Corporate Governance, the Board must meet at least six times each year. In 2023, the Board had 10 meetings with an average attendance level of 95%. In the year 2024, there were 7 meetings, indicating active engagement with the Board of Directors.

- **Board Remuneration:** BNRC reviews and makes annual recommendations to the Board on the level of Directors' remuneration. Directors' remuneration incorporates a part relating to their service on the Board and another on the Board committees, with greater weighting applied to chairing committees. The total amount of these components for each year is determined at the General Assembly meeting and may not exceed 10% of the Bank's net profit, after deducting depreciation and reserves. For 2023, total remuneration of the Board members was AED23.9mn (2022: AED23.2mn).

- **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"), Board Profit Distribution & Management Committee ("BPDMC"), and Board Sustainability Committee ("BSC").

  Each committee has its own Terms of Reference, and every committee has at least three members. According to the Corporate Governance Code of the Bank, all members of the BAC are to 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 cannot be appointed as a member of any Board committee. DIB's committee structure meets these criteria as well as satisfying global best practices for the formation of committees.

  In addition, the frequency of committee meetings and attendance levels during the year 2023 are deemed to indicate an engaged Board, with a notable increase in committee meetings compared to the prior year, in particular for BRCGC and BCIC.

## Self-Regulation

### Risk Management

**<u>Organization and Reporting</u>:** 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.

**<u>Scope:</u>** The function integrates DIB's overall risk management approach, strategies, framework and policies approved by the Board; ensuring continuous oversight on all risk aspects across the Group including risk identification, monitoring, reporting and escalation to relevant defense lines; incorporating the ESG risk elements into the Risk Management Framework by developing an ESG Risk Policy; promoting a culture of risk awareness, prevention and management across the organization; and operating an efficient reporting mechanism to the Board and senior management, which gives a group-wide view of all material risk.

A Board-approved Risk Management Framework governs the Bank's risk appetite statement and tolerance limits; policies and procedures to identify, mitigate, and manage material risks; roles and responsibilities regarding the risk management within the organization; and contingency planning and stress testing.

Several management level committees including the Risk Management Committee, Asset and Liability Committee, Provision and Impairment Review Committee, and Model Risk Management Committee contribute to the risk management activities of the Bank.

**<u>Key Areas of Focus for upgrade:</u>**

There has been a notable uplift in model risk management in terms of systems and headcount recently. On the non-financial risks front, significant efforts were made on strengthening of conduct of risk appetite within the context of consumer protection.

CBUAE released Credit Risk Management Regulation and Standards, having become effective from November 2024, and targeting to enhance the credit risk management of financial institutions by instituting standardized approaches and promoting consistency in the interpretation and assumptions used across the banks. These are expected to have ramifications for stringent provisioning while allowing for more proactive recognition of non-performing exposures. However, as per management representation no major impact is expected as the new regulations have been expected for a while.

Even though there is no clear timeline, CBUAE's contemplated Basel IV implementation is expected to help improve capital buffers owing to mortgage exposures. Having developed and tested the ESG scorecard during 2023, more than half of the portfolio has been rated until now; the Bank expects to finish the exercise by mid-2025 and develop further risk appetite metrics.

## 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. Due to the increased focus on compliance and based on the requests from BAC, the GCCO has been providing regular updates to the BAC. Meanwhile, the removal of UAE from the FATF's grey list in April 2024 is noted positively.

**Adequacy of Scope:** Board approved Compliance Policy establishes the authority, responsibility and independence of the Compliance function. The responsibilities of the Function include monitoring and reporting on adherence to applicable laws, regulations, and standards; coordinating with the Group Internal Shari'a Control Department (GISCD) regarding the outcomes of the Shari'a compliance monitoring activities undertaken by GISCD; maintaining and enforcing DIB's policies that pertain to anti-money laundering, combating terrorist financing and detection and reporting of any suspicious transactions and implementing mechanisms that sustain a culture of compliance in the Bank.

In line with the strategic priority of enhancing control functions, there has been a notable uplift to the capacity and skill sets of Compliance Function whereby 21 new staff were inducted, and considerable amount of training time was provided.

**Key Focus Areas:** The Group has strengthened its compliance management through updated Anti-Money Laundering (AML), Counter Financing of Terrorism (CFT), Know Your Customer (KYC), and Non-Proliferation Framework (NPF) policies; enhanced compliance oversight of subsidiaries and affiliates; regular internal communications and annual mandatory compliance trainings on compliance policies and procedures for all staff.

Transformation programs for the compliance units of key subsidiaries (Pakistan and Kenya) was initiated and there has been increasing contact with the compliance functions of these units.

Having uplifted the compliance foundations (people & systems) of the Bank in the last few years, the Function will be focusing on efficiency in automation and system upgrades in the next couple of years.

**External Review:** The CBUAE's review did not yield material adverse observations. Similarly, an external quality assurance review led to no major observations.

## Group Internal Audit

**Organization and Reporting**: DIB's Group Internal Audit ("GIA") function reports functionally to BAC and administratively to GCEO. In line with the Bank's medium term strategic objective of the strengthening of the control functions, the function has been in process of strengthening staff strength to 60 from prior level of 49. Over the timeline, the increasing frequency of BAC meetings (10 scheduled for 2024) ensures more frequent interaction with the Board.

**Scope:** The roles and responsibilities of the GIA Function are defined in an Internal Audit Charter approved by the BAC which is publicly available on the Bank's webpage. The IA Charter is subject to review at least once in every three years and its latest version became available in February 2024 incorporating no major changes.

The 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.

**Key Areas of Focus for Improvement:** During the ongoing year, the audit exercise was not executed as planned in the beginning of year, as the focus of the IA Function shifted toward the validation of the processes of the new core banking system replacement. As such some of the audits planned for 2024 were postponed till 2025, including the ESG and sustainability focused audit exercise.

The Function's coverage of key subsidiaries, namely DIB Pakistan and DIB Kenya, may increase going forward. In addition, the GIA plans a soft audit focusing on cybersecurity in early 2025.

GIA's main initiatives comprised updating of the audit methodology in line with the global and regional standards and best practices; providing internal / external professional development opportunities to Internal Auditors; instilling the quality assurance mechanism to further improve the practices being followed; and enhancing oversight of subsidiaries and affiliates from an Internal Audit perspective.

## Transparency

DIB's financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the laws of the UAE.

The financial statements for the year 2023 were audited by Deloitte & Touche which provided an unqualified opinion on the bank's financials. The same auditor was reassigned for the year 2024.

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; Sustainable Finance Report; Sustainable Sukuk Impact Assessment Methodology; a review report on DIB's Sustainable Finance Report by an external party; 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 made available. Overall, the disclosures are considered strong and supported by a regulatory framework.

## Sustainability

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 the years 2023 and 2024, the Bank has issued sustainable sukuk of USD1bn each.

Within the context of its objectives toward significantly increasing the share of financing activities toward sustainable projects, DIB facilitated a landmark USD 3.25 bn sustainability-linked financing for GEMS

Education, underscoring its commitment to UAE's growth and sustainability agenda within the education sector.

Moreover, DIB provided financial support towards the development of the Hamdan Bin Rashid Cancer Hospital, the first comprehensive cancer care hospital in Dubai, and an AED15mn contribution to Al Jalila Foundation. In October 2024, the Bank announced the launch of ACCESS Auto Finance, a financing solution specifically tailor-made for People of Determination[17] which was an important milestone for the DIB's ESG strategy.

As announced during COP28 by the UAE Banks Federation, the financial sector in UAE pledged to mobilize AED1trn in sustainable finance by the year 2030. Following the UAE's hosting of COP28, banks have reaffirmed their commitment to sustainability by incorporating ESG criteria into their financing policies as well as issuing detailed and comprehensive ESG reporting. The Bank received a notable increase in its external ESG ratings[18] due to its progress against its ESG strategy and for enhancing disclosures and increasing transparency in its 2023 annual reports.

## 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 ("IFIs") considering the consumer protection principles and transparency requirements of Islamic products. Aside from setting the Shari'a standards for all banks, 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 ("ISSC"), as well as the heads of the Group Internal Shari'a Control and Shari'a Audit functions.

Brief summary of Shari'a Governance framework for Islamic banks in UAE are 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

[17] People who need assistance because of a disability that limits their intellectual and/or physical abilities.
[18] From Sustainalytics, S&P Global, MSCI, and Refinitiv/LESG

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 members.
- 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 Federal Law No. 50 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. The law provides legal ground for products and services while safeguarding the interests and rights of different concerned parties. It includes several provisions around the main structures used in Islamic finance, such as Murabaha, Istisna, Salam, and Ijara.

In 2023, the HSA issued guiding principles on the application of sustainability within Islamic financial institutions. The document underlines the Shari'a foundations of Islamic sustainable finance and the Fiqh approach towards it. HSA stated that preventing environmental and social issues is not only recommended, but doing otherwise is highly discouraged or forbidden.

Recent HSA directives comprise but not limited to the induction of two trainee members in Internal Shari'a Supervision Committees and introduction of new detailed standard for Shari'a Compliance function at Group Internal Shari'a Control Department.

## DIB's Shari'a Governance Framework

DIB's Shari'a Governance framework comprises ISSC as an apex body. Besides, Group Internal Shari'a Control Division ("GISCD") and Group Internal Shari'a Audit Division ("GISAD") 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 implementing its Shari'a Governance Framework in accordance with the requirements of the CBUAE; enhancing Shari'a control functions of subsidiaries and affiliates; establishing a framework for managing Shari'a non-compliance risks as part of the overall risk management framework of the Bank; developing an information system to measure, assess and report Shari'a non- compliance risks; and promoting Shari'a knowledge across the Bank through training initiatives.

**ISSC Composition & Membership**

Currently, ISSC of Dubai Islamic Bank is composed of four scholars as opposed to five in time of prior review as Dr. Ibrahim Ali Abdulla Hamad Al Mansoori left his position. The Bank is in the process of filling his position pending the regulatory approvals.

**Table 11: ISSC's Composition**

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

ISSC 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 Group Internal Shari'a Control, Group Internal Shari'a Audit functions, and senior management to provide Shari'a-related guidance for urgent matters.

In addition, as per new regulatory directives, the Bank will be appointing two trainee scholars to ISSC who could be full members after a period of three years subject to necessary approvals.

**Meetings**

ISSC held 11 meetings in 2023 with full attendance by its members and more than 3,000 matters were considered for guidance by the ISSC, its Executive Member and the GISCD. 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.

In addition, ISSC shall meet with the Board at least annually to discuss issues pertaining to Shari'a compliance and two meetings were held to this end during 2023.

**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**

ISSC executes 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 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 2023, ISSC stated in its annual report that the Bank's activities during the year were in compliance with Shari'a except for incidences of non-compliance whereby the Committee provided directions to take appropriate measures in this regard.

## Group Internal Shari'a Controls

**Organization & Reporting:** The Bank has instituted a Group Internal Shari'a Audit Department ("GISAD"), and Group Internal Shari'a Control Department ("GISCD"). Both functions' heads report to the Board in accordance with the Shari'a Governance standards for IFIs and execute their work in consultation with ISSC with GISAD reporting to BAC and GISCD to BRCGC. The GISCD coordinates closely with Compliance and Risk Management functions and the GISAD closely coordinates with Internal Audit Function.

**Scope, Role & Responsibilities:** GISAD 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.

The responsibilities of GISCD 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 of GISCD reports matters concerning compliance with the principles of Shari'a, regulations, Shari'a pronouncements of ISSC, resolutions and standards issued by Higher Shari'a Authority to ISSC and the Group CEO.

**Income Purification**

***Shari'a Non-Compliant Income:*** Shari'a non-compliant income mainly comprises the income sourced from transaction errors and wrong execution of the transactions as determined by the Internal Shari'a Supervision Committee and directed to the charity fund of the Bank. In addition, the late payment donations by the customers who delay in their payments are also added to the same fund. 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.

For the year 2023, Shari'a non-compliant income amounted to AED1.3mn (2022: AED3.3mn). During the year 2023, the Bank has disbursed AED23.4mn (2022: AED13.3mn) for various social contribution 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 491.4mn, including Zakat on depositor's investment risk reserves, at end 2023.

**Shari'a Disclosures**

The Bank's disclosures on Shari'a governance are deemed to be strong. Publicly available sources disseminate adequate disclosure about Shari'a governance framework of the Bank, responsibilities of ISSC, GISCD, and GISAD, 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*

الوكالة الإسلامية الدولية للتصنيف
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