CREDIT OPINION

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Update

Send Your Feedback

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Dubai Islamic Bank PJSC

Update following ratings affirmation

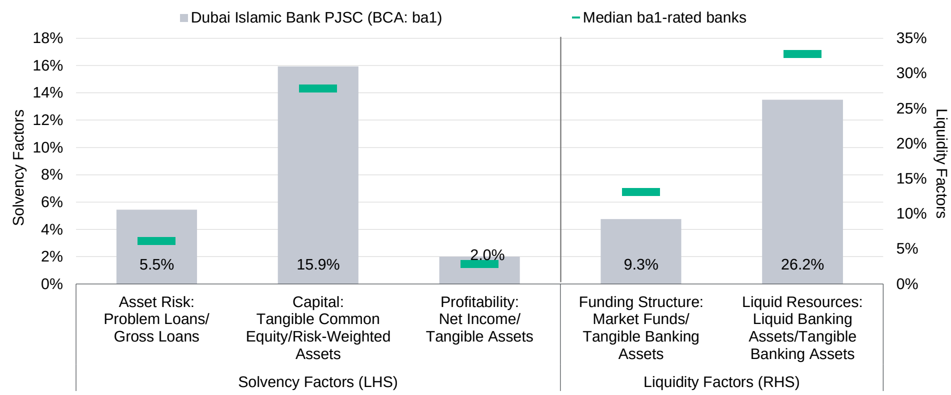
Summary

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

DIB's ba1 BCA reflects the bank's sound capitalization, strong profitability backed by its solid Islamic retail franchise in the UAE, and solid liquidity position. These strengths are balanced by high borrower and sector concentration risks while asset quality, although improving, remains relatively weak.

Exhibit 1

Rating Scorecard - Key financial ratios



The problem loan and profitability ratios are the weakest of the average three-year ratios and the latest reported ratios. The capital ratio is the latest reported figure. The funding structure and liquid asset ratios are the latest year-end figures.

Source: Moody's Ratings

Credit strengths

» Strong profitability, supported by a solid retail growing Islamic franchise

» Sound liquidity, with a granular funding profile

» Solid capital levels

» Very high probability of government support in case of need

Credit challenges

» Despite some improvement, asset quality remains relatively weak

» High borrower and sector concentrations

Outlook

The stable outlook on the bank's long-term ratings reflects our expectation of stable asset quality and profitability, combined with strong capital and liquidity buffers.

Factors that could lead to an upgrade

Upward pressure on DIB's ratings could develop if (1) there is a sustained improvement in asset quality while maintaining strong capital, high profitability, and liquidity buffers, ; and (2) there is a significant reduction in borrower and sector concentration risks, particularly in real estate.

Factors that could lead to a downgrade

Downward pressure on DIB's ratings could develop if (1) there is a deterioration of the bank's asset quality; or (2) there is a significant financing growth that could lead to reduced capital buffers; or (3) the notches of government support uplift are reduced.

Key indicators

Exhibit 2

Dubai Islamic Bank PJSC (Consolidated Financials) [1]

	12-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (AED Million)	344,686.8	314,291.5	288,238.5	279,081.6	289,556.5	4.5[4]
Total Assets (USD Million)	93,842.1	85,573.9	78,482.4	75,980.9	78,830.6	4.5[4]
Tangible Common Equity (AED Million)	40,985.8	37,609.2	34,018.8	31,423.4	29,489.1	8.6[4]
Tangible Common Equity (USD Million)	11,158.5	10,240.1	9,262.7	8,555.1	8,028.3	8.6[4]
Problem Loans / Gross Loans (%)	4.2	5.5	6.7	7.0	5.9	5.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.9	15.1	14.7	13.7	13.2	14.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.1	24.7	30.3	34.2	31.8	28.0[5]
Net Interest Margin (%)	2.7	2.8	2.8	2.2	2.3	2.6[5]
PPI / Average RWA (%)	3.4	3.3	3.1	2.7	2.8	3.1[6]
Net Income / Tangible Assets (%)	2.3	2.1	1.8	1.4	0.9	1.7[5]
Cost / Income Ratio (%)	28.7	28.6	27.5	28.9	30.6	28.9[5]
Market Funds / Tangible Banking Assets (%)	9.3	11.3	13.0	9.1	11.9	10.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	26.2	24.9	25.4	22.7	21.4	24.2[5]
Gross Loans / Due to Customers (%)	88.2	93.8	98.1	95.0	99.6	94.9[5]

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

Sources: Moody's Ratings and company filings

Profile

DIB had total assets of AED344.7 billion as of the end of December 2024 and is the fourth-largest bank in the UAE, with market shares of 8%, 10% and 9% in terms of assets, net financing and deposits, respectively.

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

DIB was established in 1975 as the world's first Islamic bank. Since March 2000, it has been listed on the Dubai Financial Market (DFM: DIB). As of the end of December 2024, the Government of Dubai held a stake of 28% in the bank through the Investment Corporation of Dubai.

In July 2023, DIB acquired a 20% stake in T.O.M group of companies to penetrate the Turkish digital banking and financial technology sector, hence contributing to the geographical diversification of its revenues. In January 2025, the bank increased its stake in T.O.M group to 25%.

Detailed credit considerations

Strong profitability, supported by a dominant and growing Islamic franchise

As the oldest Islamic bank in the world, DIB benefits strongly from its Shari'ah-compliant branding, particularly in the retail segment, among UAE citizens. DIB's market share has increased to 7.8% as of December 2024 from 4.8% as of December 2013 in terms of assets, driven by both the retail and corporate (including government-related entities) segments. The retail franchise has displayed robust sustainability through various economic cycles, which proves the loyalty of its customer base.

DIB's strong retail franchise, coupled with net profit margin of 2.7% during 2024 (2.8% during 2023) underpins its strong profitability. The bank's net income to tangible assets ratio increased to 2.3% in 2024 from 2.1% in 2023, driven by higher interest rates and non-funded income and lower provisioning.

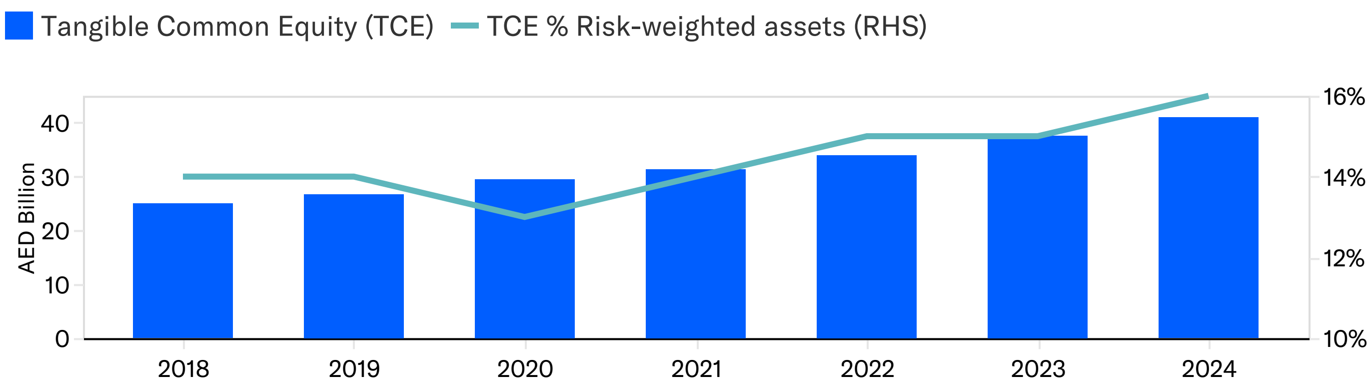
DIB's income before tax increased 28% year-on-year, bolstered by a 26% growth in non-funded income over the same period. The increase in non-funded income is attributed to sustained net fees and commission income and higher income generated from investment properties amid a favorable real estate cycle in Dubai. The bank's cost efficiency remained stable with a cost to income ratio of 29% during 2024 (29% during 2023) reflecting DIB's ongoing investments in both human capital and technology infrastructure. Bottom line profitability was also supported by lower provisioning charges, which consumed 4.8% of pre-provision income (17% in 2023). Despite the introduction of corporate tax at the UAE on 1 January 2024, net income remained healthy and increased by 17% year-on-year.

We expect that net profitability will stabilize at current levels as the impact of expected rate cuts and higher corporate tax will be balanced by lower provisioning needs and credit growth amid a favorable operating environment.

Solid capitalisation

DIB's tangible common equity (TCE) to risk-weighted assets (RWAs) ratio increased to 15.9% as of end of December 2024 (December 2023: 15.1%). Sound profitability over the past two years supported DIB's capitalisation, albeit it could be constrained by a high dividend payout, which was around 40% of 2024 profitability.

Exhibit 3
Evolution of DIB's capital metrics



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

As of December 2024, DIB's common equity tier 1 (CET1) capital stood at 13.2%, up 40 basis points from year-end 2023. In October 2024, DIB issued AED 1.8 billion of Tier 1 sukuk, increasing its total hybrid Additional Tier 1 (AT1) capital to AED10.1 billion, which represented 2.9% of total assets. The bank's capitalisation levels are now in line with the UAE average.

We expect DIB to maintain stable capital buffers over the next 12 to 18 months, as they balance earnings retention with asset expansion.

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

We expect DIB's overall asset quality to continue to improve as the operating environment remains favorable in the UAE and the new credit risk management standards get implemented. The non-performing financing (NPF) ratio, which includes Purchased or Originated Credit Impaired (POCI) assets from the Noor Bank acquisition completed in 2020, has improved to 4.2% as of December 2024, down from 5.5% in December 2023 and 6.7% in December 2022. Albeit, it still remains above the domestic system average of 3.4% as of December 2024. The improvement in asset quality in 2024 is a result of the resolution of large legacy exposures. In March 2024, DIB announced the amicable settlement of all litigations with NMC Healthcare Group (NMC) in exchange of cash considerations and NMC Holdco notes, hence becoming an economic owner of NMC Holdco SPV LTD (NMC new holding company which is incorporated under the Abu Dhabi Holding company).

DIB's stage 2 share of gross financing has improved to 5.0% as of December 2024, down from 6.9% in December 2023. However, it still remains higher than the domestic system average of 4.3% as of December 2024.

The bank's asset quality could be pressured by the uncovered portion of nonperforming financings, with financing loss reserves covering 74% of nonperforming financings as of December 2024 (77.4% as of December 2023).

Our assessment of DIB's asset risk also considers its significantly high credit concentrations to both single obligors and sectors. Additionally, related-party exposures amounted to approximately 5.1% of the bank's tangible common equity as of December 2024. DIB's main shareholder, the Government of Dubai, which has one representative on the board of directors, is also one of the bank's main borrowers. Consequently, DIB is heavily exposed to the government and government-related entities in both its investment and financing portfolios.

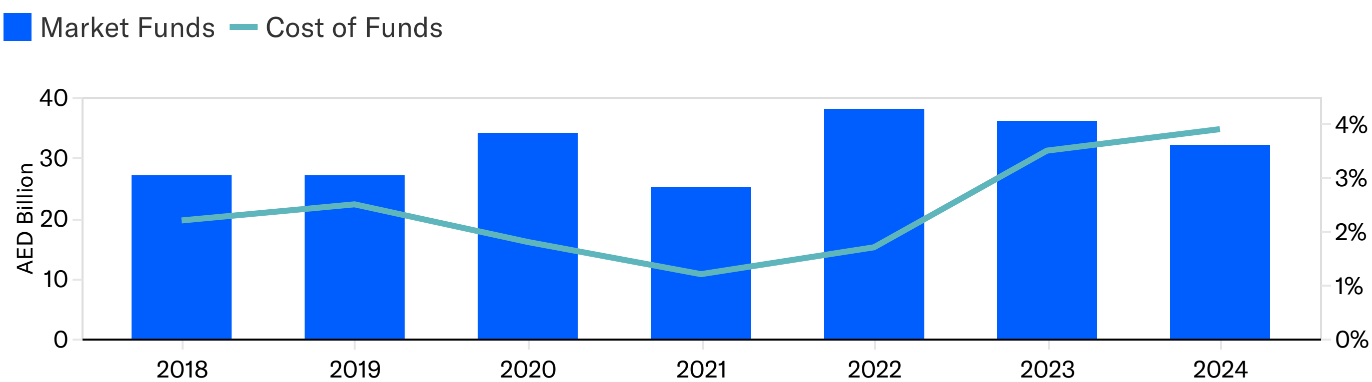
The bank's real estate exposure has decreased to 18% of the net corporate financing book as of December 2024 from 24% as of December 2023. This is in line with the United Arab Emirates (UAE) system average. DIB financing book grew by 5% in 2024 and 7% in 2023, at a lower pace compared to the UAE banking system (11% in 2024 and 8% in 2023).

Solid liquidity with a granular funding profile

DIB's funding and liquidity positions remain solid, despite rapid asset growth. As of December 2024, liquid assets slightly increased to 26.2% of tangible banking assets, up from 24.9% in December 2023. Market funding as a proportion of tangible banking assets stood at a manageable 9.3% during the same period, down from 11.3% in December 2023, as the bank reduced its liabilities to other financial institutions. Additionally, the bank's net financings-to-deposit ratio improved to 85.5% as of December 2024, compared to 89.8% in December 2023. This improvement was driven by deposit growth outpacing net financing growth, with deposits increasing by 12% year-on-year in 2024, while net financing grew by 7% during the same period.

The bank's overall solid funding and liquidity metrics are supported by its strong Islamic franchise, which led to a strong deposit growth over recent years (12% in both 2024 and 2023). The bank remained primarily deposit funded, with deposits accounting for 72% of total assets as of December 2024 (2023: 71%). However, zero or low-cost current and savings account balances stood at 38% of the bank's deposits as of December 2024, broadly stable from 37% as of December 2023, and remain well below local peers average, resulting in a volatile cost of funds.

Exhibit 4
Market funds evolution

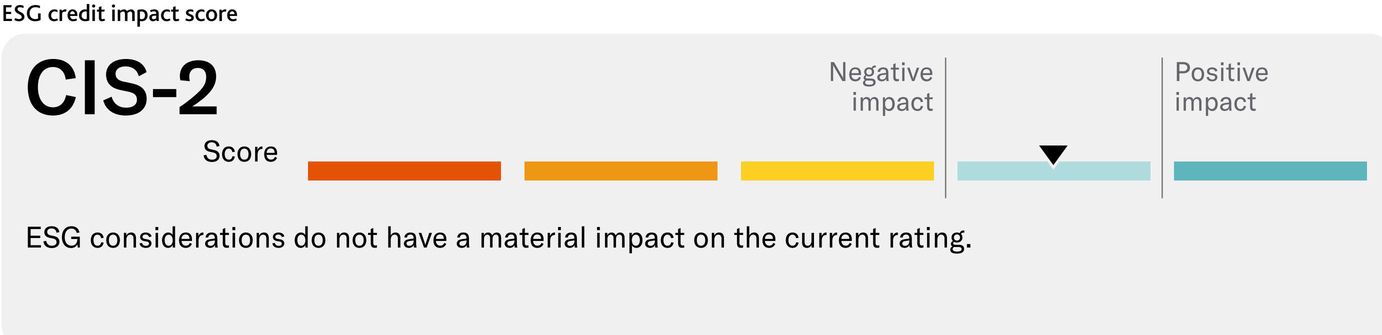


Source: DIB's financial statements and Moody's Ratings

ESG considerations

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

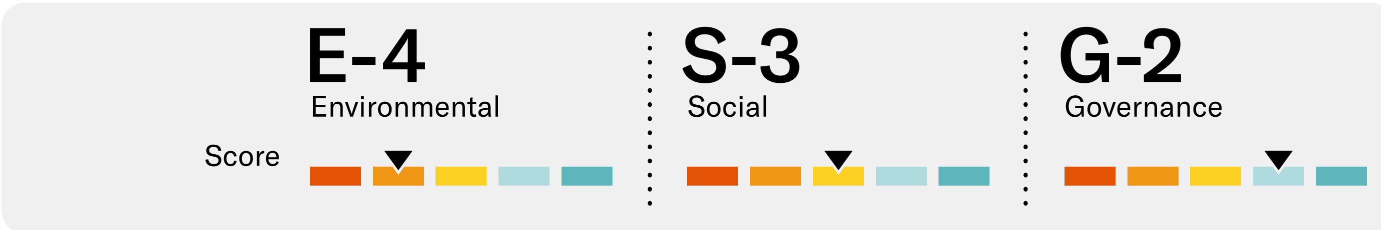
Exhibit 5
ESG credit impact score



Source: Moody's Ratings

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

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

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

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

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

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

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

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

Methodology and scorecard

About Moody's Bank Scorecard
Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong

divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 7
Rating Factors

Macro Factors		
Weighted Macro Profile	**Strong -**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.5%	ba1	↑	b2	Single name concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.9%	a2	↔	ba1	Expected trend	
Profitability						
Net Income / Tangible Assets	2.0%	a1	↔	baa1	Expected trend	
Combined Solvency Score		baa1		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	9.3%	a3	↔	baa2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	26.2%	baa2	↔	baa3	Stock of liquid assets	
Combined Liquidity Score		baa1		baa2		
Financial Profile		baa1		ba1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa2		
BCA Scorecard-indicated Outcome - Range				baa3 - ba2		
Assigned BCA				ba1		
Affiliate Support notching				0		
Adjusted BCA				ba1		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	baa3	4	A2	A2
Counterparty Risk Assessment	1	0	baa3 (cr)	4	A2(cr)	
Senior unsecured bank debt	0	0	ba1	4	A3	A3

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

Ratings

Exhibit 8

Category	Moody's Rating
DUBAI ISLAMIC BANK PJSC	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2
DIB SUKUK LIMITED	
Outlook	Stable
Bkd Senior Unsecured	A3
Bkd Senior Unsecured MTN	(P)A3

Source: Moody's Ratings

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454