RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
June 27, 2024

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA	A-1+	AA	A-1+
Rating Outlook	Stable		Stable	
Rating Date	June 27, 2024		June 26, 2023	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Tier 2 Sukuk	AA-		AA-	
Rating Date	June 27, 2024		June 26, 2023	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Additional Tier 1 Sukuk	A+		A+	
Rating Date	June 27, 2024		June 26, 2023	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION

Incorporated in 2005	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Unlisted Company	**Chairman of the Board:** Mohamed Saeed Ahmed Abdulla Al Sharif
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Junaid Ahmed
Dubai Islamic Bank PJSC, United Arab Emirates – 99.99%	

APPLICABLE METHODOLOGY

Rating Methodology – Financial Institution
https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf
Rating The Issue
https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.pdf
VIS Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Dubai Islamic Bank Pakistan Limited

OVERVIEW OF THE INSTITUTION

Incorporated in Pakistan as an unlisted public limited bank, Dubai Islamic Bank Pakistan Limited (DIBPL) operates as an Islamic commercial bank in accordance with Shari'a principles.

Profile of Chairman
Mohamed Saeed Ahmed Abdulla Al Sharif serves as Chairperson of the Board. Currently, Mr. Sharif serves as Chief of International Business and Real Estate at DIB, UAE; his experience spans over 30 years.

Profile of CEO
Junaid Ahmed has over thirty years' experience in the areas of General Banking, Foreign Exchange, Treasury, Corporate and Investment Banking with leading banks in Pakistan and in the Middle East. He is a seasoned banker, who joined Dubai Islamic Bank Pakistan Limited as President and Chief Executive Officer in August 2010. He has also served as Director on the Board of MESC - Jordan Dubai Islamic Bank, Bank of Khartoum- Sudan and Bosna Bank International – Bosnia Herzegovina.

RATING RATIONALE

Dubai Islamic Bank Pakistan Limited ('DIBPL' or 'the Bank') is a subsidiary of Dubai Islamic Bank PJSC, operating independently since 2005 within the regulatory framework and banking laws of Pakistan. DIBPL provides a range of retail, wholesale, treasury & investment banking, and capital markets products and services to individual, corporate and institutional customers. The Bank operates 235 branches across Pakistan.

Banking sector

The banking sector in Pakistan has been navigating a challenging macroeconomic landscape. Despite facing headwinds such as high inflation, elevated interest rates, and geopolitical uncertainties, the sector has demonstrated resilience and adaptability in supporting economic stability.

One of the important factors contributing to the sector's resilience has been its strong capitalization and liquidity. Banks in Pakistan remain well-capitalized, with an industry-wide CAR of 19.7%. This ensures that banks are equipped to absorb potential shocks and maintain financial stability. Moreover, profitability metrics remain healthy, with a return on equity (ROE) of 27.1% based on CY-23 results, underscoring the sector's ability to generate sustained returns amidst challenging operating conditions.

The government's successful negotiation of the IMF's Stand-By Arrangement (SBA) program, culminating in a Staff-Level Agreement and disbursement of funds, has provided additional support to market confidence and exchange rate stability, with positive implications for the banking sector. In terms of monetary policy dynamics, the State Bank of Pakistan (SBP) has maintained a cautious stance, balancing the imperative of containing inflationary pressures while supporting economic growth. As the headline inflation has moderated from peak levels, though remains elevated, prompting the SBP to decrease the policy rate by 150bps to 20.5% in its latest monetary policy statement. The central bank remains commitment to anchoring inflation expectations and safeguarding macroeconomic stability.

Looking ahead, the banking sector faces both challenges and opportunities. Continued vigilance in managing credit quality and liquidity risks will be vital, especially amidst evolving macroeconomic dynamics and policy uncertainties. Moreover, the sector's role in supporting the government's reform agenda, particularly in areas such as taxation, energy, and privatization of state-owned enterprises, will be critical in fostering sustainable economic growth and financial stability.

Key rating drivers

Strong sponsor profile

Ratings assigned to Dubai Islamic Bank Pakistan Limited (DIBPL) take into account the strong franchise of the institution given its association with Dubai Islamic Bank PJSC (DIB), the largest Islamic bank operating in United Arab Emirates. Parent support has been witnessed over time both in the form of financial support and technical knowledge transfer. Ratings also draw strength from the standalone financial profile of DIB, rated A+/A1 (Single A Plus / A One) on international scale ratings and AA (ae)/A1+(ae) on national scale by the Islamic International Rating Agency (IIRA).

No major movement in the gross financing portfolio over the rating review period owing to challenging macroeconomic environment

DIBL's gross advances remained relatively stable in absolute terms at end-March'24 compared to end-Dec'22 despite marginal industry growth of 0.4%; the same is a reflection of the challenging macroeconomic environment and drop in overall credit demand over the rating review period. Nonetheless, market share remained stable at 2.2% (CY23: 2.1%, CY22: 2.1%). Moreover, gross advances to deposits ratio (ADR) stood higher at 71.1% (CY23: 70.4%, CY22: 64.6%) at end-1QCY24 in conjunction with lower deposit base; the same continues to be higher compared to medium-sized banking peers in line with historical trends. Going forward, the Bank does not envisage any major increase in the overall portfolio and aims to remain focused on established corporate entities in order to manage the associated risk.

Increase in gross infection while adequate provisioning coverage led to improvement in some asset quality indicators

The Bank's infected portfolio increased significantly over the rating review period in conjunction with deterioration in macroeconomic conditions, resulting in higher gross infection of 6.3% (CY23: 6.1%, CY22: 3.8%) at end-1QCY24. However, sizeable increase in specific provisions led to low net infection and Net NPLs to Tier-1 equity ratios of 0.4% and 2%, respectively (CY23: 0.2%, 1.2%; CY22: 0.6%, 4.1%) vis-à-vis CY22; the same compare favorably to medium-sized banking peers. Hence credit risk related to the advances portfolio is presently considered low.

Going forward, the management envisages some improvement in asset quality indicators on the back of the Bank's cautious lending strategy, anticipated decline in interest rates and expected recoveries against NPLs. The ratings remain sensitive to improvement in asset quality to ensure a healthy loan book.

Investment portfolio remained tilted towards government securities

The investment portfolio augmented over the rating review period as liquid resources were directed largely toward short-term GoP Ijarah Sukuks and foreign debt securities to capitalize on the high discount rate environment. The overall credit risk profile is considered manageable given that government securities comprise majority of the investment portfolio. While foreign securities consist of investment-grade and government debt instruments, providing comfort in terms of credit risk.

Exposure to Mark-to-Market (MTM) losses is also prevalent given that the entirety of the portfolio is categorized as securities at fair value through other comprehensive income (FVOCI); nonetheless, the associated risks are moderated given that the majority of investments constitute floating-rate instruments and have a duration of less than a year, as per management. Going forward, the Bank aims to continue focusing on short-term instruments.

Meanwhile, as the majority of foreign securities are fixed rate instruments and the PKR may to remain volatile, inherent market and foreign currency risks are present. Nonetheless, as per management, these instruments are funded by foreign deposits which help mitigate the aforementioned foreign currency risk. Moreover, the management intends to hold the securities till maturity, thus potential losses are unlikely to be realized.

Decreasing trend in deposit base while liquidity remained adequate

DIBL's deposits decreased by 6.1% to Rs. 324.9b (CY22: Rs. 345.8b) at end-CY23 while the industry exhibited a growth of 23.9%; the relevant market share therefore decreased to 1.2% (CY22: 1.5%) by end-CY23. This was largely due to decline in corporate saving deposits and shedding of high-cost term deposits to in order to improve spreads. Meanwhile, current account deposits increased by 7.3% to Rs. 92.3b (CY22: Rs. 86.1b). Given higher current account deposits offsetting decline in savings deposits, the proportion of Current Account Saving Account (CASA) remained relatively stable. The concentration of top depositors in the total deposit base remained on the higher side. During 1QCY24, the Bank's deposit base decreased further largely on account of lower fixed and other deposits. Consequently, CASA portion increased slightly.

While LCR improved and liquidity metrics were adequate, the same lagged medium-sized peers, indicating room for improvement. Going forward, the management plans to expand its network from the current 235 branches to 500 locations over the next four years, pending approval from the Board. The network expansion is expected help in mobilizing low cost deposits, going forward.

Enhanced profitability indicators mainly on the back improving spreads

The SBP's monetary tightening policy over the rating review period led to benchmark rates increasing by 600bps during CY23 compared to SPLY, translating in appreciable improvement in industry-wide profitability of banks. Consequently, DIBL's net markup income increased significantly by 56.5% on the back of higher net spreads and expansion of the investment portfolio. The non-markup income also increased slightly due to higher fee & commission and foreign exchange income. The operating expenses increased emanating largely from higher salary compensation and IT related expenses in line with inflationary pressure. Nonetheless, the efficiency ratio improved to 36.2% (CY22: 44.1%) on account of significantly higher recurring income. Net provisions and write-offs stood higher at Rs. 7.4b (CY22: Rs. 4.6b). Nevertheless, a healthy bottom-line was recorded, amounting to Rs. 6.7b (CY22: Rs. 3.9b), with RoAA increasing to 1.5% (CY22: 1%) in CY23. Improvement in profitability continued in 1QCY24.

Going forward, profitability metrics may depict downward movement owing to anticipated policy rate cuts coupled with strategic shift toward corporate lending which typically operate on relatively lower spreads. Moreover, the planned network expansion may also adversely impact operational efficiency. However, the Bank's focus on low-cost deposits may alleviate pressure on spread to some extent. Meanwhile, profitability indicators will remain sensitive to improvement in asset quality.

Improvement in capitalization on a timeline basis

The Bank's Capital Adequacy Ratio (CAR) increased to 18% (CY22: 15.6%) by end-Dec'23 that is comfortably above regulatory requirement. The same is attributable to uptick in Tier-1 Capital owing to enhanced profit retention coupled lower Risk-Weighted Assets (RWA) in line with lower credit risk assets. CAR remained at 18.2% at end-Mar'24. Going forward, maintenance of an adequate cushion above minimum CAR requirement would remain an important rating parameter.

Dubai Islamic Bank Limited Appendix I

FINANCIAL SUMMARY				Appendix I
BALANCE SHEET	**2021**	**2022**	**2023**	**1QCY24**
Investments	84,862	103,361	121,362	124,396
Due from Financial Institutions	1,031	23,500	2,900	0
Gross Advances	232,313	259,283	261,768	259,173
Net Advances	225,365	247,768	243,068	239,418
Cash and Balances	27,125	46,778	32,887	29,626
Other Assets	13,091	23,983	30,776	33,960
Total Assets	**351,474**	**445,390**	**430,992**	**427,400**
Borrowings	33,545	35,875	33,909	40,319
Deposits & other accounts	261,574	345,811	324,877	316,306
Subordinated Sukuks	7,120	7,120	7,120	7,120
Other Liabilities	21,668	26,477	27,922	24,003
Total Liabilities	**323,907**	**415,284**	**393,827**	**387,749**
Paid Up Capital	11,652	11,652	11,652	11,652
Tier-1 Equity	26,884	30,781	37,479	39,921
Total Equity	**27,567**	**30,107**	**37,165**	**39,651**
INCOME STATEMENT	**2021**	**2022**	**2023**	**1QCY24**
Net Mark-up Income	11,897	19,450	30,436	8,498
Net Provisioning	2,098	4,630	7,372	1,063
Non-Markup Income	3,657	3,500	3,795	965
Operating Expenses	8,286	10,132	12,405	3,491
Profit Before Tax	5,055	7,962	14,032	4,799
Profit After Tax	3,089	3,916	6,719	2,441
RATIO ANALYSIS	**2021**	**2022**	**2023**	**1QCY24**
Market Share (Domestic Advances) (%)	2.29%	2.18%	2.12%	2.17%
Market Share (Domestic Deposits) (%)	1.25%	1.54%	1.17%	1.12%
NPLs	6,537	9,815	16,044	16,252
Gross Infection (%)	2.81%	3.79%	6.13%	6.27%
Specific Provisioning Coverage (%)	62%	85%	97%	95%
Total Provisioning Coverage (%)	106%	117%	117%	122%
Net Infection (%)	1.10%	0.59%	0.21%	0.37%
Cost of deposits (%)	4.40%	6.74%	8.89%	9.61%
Net NPLs to Tier-1 Capital *(adjusted for General Provisioning)* (%)	7.69%	4.11%	1.25%	1.97%
Advances to Deposits (ADR) *(adjusted for SBP Borrowings) (%)*	77.46%	64.60%	70.41%	71.08%
Tier 1 CAR (%)	12.44%	12.94%	15.36%	15.65%
Capital Adequacy Ratio (CAR) (%)	15.51%	15.60%	17.99%	18.21%
Markup Spreads (%)	4.40%	5.68%	9.05%	10.32%
Efficiency (%)	55.33%	44.10%	36.24%	36.90%
LCR (%)	162.45%	125.42%	178.91%	201.97%
NSFR (%)	123.36%	131.28%	140.13%	137.07%
ROAA (%)*	0.94%	0.98%	1.53%	2.25%
ROAE (%) *(Shareholder's Equity)**	12.19%	13.58%	19.69%	27.08%
Liquid Assets to Deposits & Borrowings (%)	35.70%	44.15%	42.57%	41.96%

**Annualized*

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Dubai Islamic Bank Pakistan Limited				
Sector	Commercial Banks				
Type of Relationship	Solicited				
Purpose of Rating	Entity & Instrument Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	6/27/2024	**AA**	**A-1+**	**Stable**	**Reaffirmed**
	6/26/2023	AA	A-1+	Stable	Reaffirmed
	6/29/2022	AA	A-1+	Stable	Reaffirmed
	6/30/2021	AA	A-1+	Stable	Reaffirmed
	6/30/2020	AA	A-1+	Stable	Reaffirmed
	6/28/2019	AA	A-1+	Stable	Upgrade
	6/29/2018	AA-	A-1	Stable	Reaffirmed
	5/17/2017	AA-	A-1	Stable	Upgrade
	6/30/2016	A+	A-1	Stable	Maintained
	6/30/2015	A+	A-1	Positive	Maintained
	6/30/2014	A+	A-1	Stable	Upgrade
	7/2/2013	A	A-1	Positive	Reaffirmed
	7/3/2012	A	A-1	Positive	Maintained
	Rating Date	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: Additional Tier-1 Sukuk				
	6/27/2024	**A+**	**-**	**Stable**	**Reaffirmed**
	6/26/2023	A+	-	Stable	Reaffirmed
	6/29/2022	A+	-	Stable	Reaffirmed
	6/30/2021	A+	-	Stable	Reaffirmed
	6/30/2020	A+	-	Stable	Reaffirmed
	6/28/2019	A+	-	Stable	Upgrade
	1/9/2019	A	-	Stable	Final
	12/7/2018	A	-	Stable	Preliminary
	Rating Date	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: Tier-2 Sukuk				
	6/27/2024	**AA-**	**-**	**Stable**	**Reaffirmed**
	06/26/2023	AA-	-	Stable	Reaffirmed
	12/02/2022	AA-	-	Stable	Final
	11/28/2022	AA-	-	Stable	Preliminary
Tier-1 Instrument Structure	Basel 3 compliant Additional Tier-1 Sukuk of Rs. 3.12b. The Sukuk is Shariah compliant rated unsecured and sub-ordinated Sukuk.				
Tier-2 Instrument Structure	Basel 3 compliant Tier-2 Sukuk of Rs. 4b. The Sukuk is Shariah compliant rated unsecured, sub-ordinated and privately placed Sukuk.				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted	Name	Designation	Date
	Mr. Syed Farhan Ahmed	CFO	June 4, 2024
	Mr. Naveed Malik	Head Consumer Banking	
	Mr. Mujahid Zuberi	Head Corporate	
	Mr. Naim Abdullah	Head Treasury	