RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
June 30, 2021

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	*Jun 30, 2021*		*Jun 30, 2020*	
Tier 2 Sukuk	AA-		AA-	
Rating Date	*Jun 30, 2021*		*Jun 30, 2020*	
Additional Tier 1 Sukuk	A+		A+	
Rating Date	*Jun 30, 2021*		*Jun 30, 2020*	

COMPANY INFORMATION

Incorporated in 2005	**External auditors:** Yosuf Adil & Co., Chartered Accountants
Public Limited 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(IES)

PRIMER - Commercial Banks Methodology – March 2018
http://vis.com.pk/docs/Meth-CommercialBanks201803.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 Investment Banking at DIB, UAE; his experience spans over 30 years

Profile of CEO
Junaid Ahmed has over thirty years' experience in the diversified areas of General Banking, Foreign Exchange, Treasury, Corporate and Investment Banking with leading banks in Pakistan and in the Middle East. A seasoned banker, he joined Dubai Islamic Bank Pakistan Limited as President and Chief Executive Officer in August 2010. Along with serving as the CEO for DIBPL, 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

Set up in 2005, Dubai Islamic Bank Pakistan Limited ('DIBPL' or 'the Bank') holds a market share of 1.4% as at Mar'21, which has been maintained on a YoY basis. In terms of Islamic banking industry financing and deposits, the Bank has market shares 10.5% and 7.1% respectively (Dec'19: 11.0% and 7.9%). DIBPL provides a range of retail, wholesale, treasury and investment banking, and capital markets products and services to individual, corporate and institutional customers.

The Bank operates out of 235 branches situated in 68 cities across Pakistan.

Strong sponsor profile with demonstrated financial and technical support.

Ratings assigned to DIBPL incorporate sound profile and demonstrated track record of the sponsor, Dubai Islamic Bank (DIB), the largest Islamic bank operating in UAE. DIB has been rated 'A/A-1' (Single A/A-One) on the international scale by Islamic International Rating Agency (IIRA). Support from the parent has been witnessed in the past both in the form of financial assistance and technical knowledge transfer, while the parent has also not clawed back any profit through dividends. VIS expects this support to continue going forward.

Akin to the banking industry, DIBPL has undertaken changes in asset mix, albeit ADR continues to trend on the higher side

Akin to the industry, DIBPL has also shifted its asset mix towards the investment portfolio. As a result, the Bank's ADR has dropped from 81.0% as of Dec'19 to 75.4% as of Mar'21. The rationalization of ADR is viewed positively from rating perspective, albeit it continues to trend on the higher side vis-à-vis industry & peers.

Increase in counterparty concentration and impairment ratios pose credit risk concerns

Concentration in the funded portfolio has been on the rise, while sector-wise concentration continues to remain on the higher side. Akin to the banking sector, DIBPL's asset quality indicators have posted an adverse trend in 2020. However, overall gross infection remains notably below the industry gross infection of 9.2% as of Dec'20.

Under the SBP Covid relief measures, the Bank has provided deferments of up to 1 year, on outstanding amount of Rs. 41.3b, i.e. 20% of the gross portfolio. In addition, the Bank has also undertaken Covid related restructurings amounting to Rs. 6b. Going forward, VIS will continue to closely monitor asset quality trends. DIBPL has a sizable portfolio of mid-tier clients, which depict moderate risk profile. Accordingly, there is higher-moderate risk of non-performance.

DIBPL's liquidity metrics, although having depicted improvement, continue to lag peers

During the period under review, the Bank managed to notably improve its deposit composition, while growing roughly in line with the industry and maintaining market share. The change in deposit composition is viewed favorably from ratings perspective, with the Bank's CASA ratio posting strong improvement. The change in asset mix has translated in improvement in liquid assets to deposits & borrowings (LADB).

Profitability is expected to come under pressure on the back of spread contraction and higher expectation of provisioning burden

DIBPL's spread underwent moderate contraction in 2020. However, the impact of lower benchmark rates on the Bank's spread has become more apparent in Q1'2021. The Bank's efficiency ratio has remained stable and is aligned with the peer median. Provisioning burden[1] has increased on a timeline and stood at 31% for 2020 vis-à-vis 11% in SPLY. In absolute terms, net provision charged to the P&L amounted to Rs. 2.1b (2019: Rs. 0.7b).

Going forward, DIBPL's profitability is expected to remain under pressure, given negative outlook on spreads. Given the non-performance of an oil sector client in Q1'21, wherein additional provisions will required

Capitalization is aligned with peer median

DIBPL's equity base has continued to post improvement on the back of internal capital generation and profit retention. During the period under review, the Bank has continued with full profit retention policy. DIBPPL's capital adequacy remains adequate, at present, in view of the quantum of cushion above the minimum requirement. Going forward, as profitability indicators are projected to decline, and as the Bank pursues growth in financing portfolio amidst a low benchmark rate environment, the RWAs are expected to grow.

[1] Provisions & Write offs (net)/ Profit Before Taxes & Provisions

Dubai Islamic Bank Limited Appendix I

FINANCIAL SUMMARY					*(amounts in PKR billions)*
BALANCE SHEET		**31-Dec-18**	**31-Dec-19**	**31-Dec-20**	**31-Mar-21**
Total Investments		45.9	49.2	66.6	73.1
Islamic Financing & related assets		153.3	177.9	199.4	204.6
Total Assets		231.8	264.6	303.3	317.4
Due to FIs		12.7	9.8	17.4	23.5
Deposits & other accounts		182.2	210.0	237.6	245.2
Subordinated Debt		7.1	7.1	7.1	7.1
Paid-up Capital		11.7	11.7	11.7	11.7
Tier-1 Equity		19.7	23.8	26.6	27.4
Net Worth		17.6	20.9	23.8	24.6
INCOME STATEMENT	**2018**	**2019**	**2020**	**Q1'20**	**Q1'21**
Net Mark-up Income	8.1	10.5	11.9	2.9	2.8
Net Provisioning Charge	0.2	0.7	2.1	0.1	0.3
Non-Markup Income	2.2	2.8	2.5	0.5	0.8
Operating Expenses	5.9	6.7	7.4	1.9	1.9
Profit Before Tax	4.1	5.7	4.8	1.4	1.3
Profit After Tax	2.5	3.3	2.9	0.9	0.8
RATIO ANALYSIS		**31-Dec-18**	**31-Dec-19**	**31-Dec-20**	**31-Mar-21**
Market Share (Advances) (%)		2.0	2.2	2.4	2.4
Market Share (Deposits) (%)		1.4	1.4	1.3	1.4
Gross Infection (%)		1.9	2.5	2.9	3.2
Provisioning Coverage (%)*		73.4	63.3	87.8	79.8
Net Infection (%)		0.6	1.0	1.3	1.6
Cost of deposits (%)		3.53	6.36	5.22	3.62%
Net NPLs to Tier-1 Capital (%)		4.5	7.5	9.1	11.1
CET I CAR		9.75	12.14	11.90	11.71
Tier I CAR		11.59	13.96	13.48	13.22
Capital Adequacy Ratio (C.A.R (%))		14.00	17.13	16.89	16.41
Markup Spreads (%)		4.36	5.40	5.05	NA
Efficiency (%)		57.3	51.6	51.9	53.4
ROAA (%)		1.2	1.3	1.0	1.0
ROAE (%)		15.4	17.4	12.9	13.2
Liquid Assets to Deposits & Borrowings (%)		31.6	31.6	33.7	34.9
*Includes General Provisions					

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

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

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

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

BB+, BB, 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+, B, B-
Obligations deemed less 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

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
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.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Dubai Islamic Bank Pakistan Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity and Sukuk Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
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		
6/30/2021	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		
6/30/2021	AA-	-	Stable	Reaffirmed
6/30/2020	AA-	-	Stable	Reaffirmed
6/28/2019	AA-	-	Stable	Upgrade
6/29/2018	A+	-	Stable	Reaffirmed
9/5/2017	A+	-	Stable	Final
6/22/2017	A+	-	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
Syed Farhan Ahmed	CFO	June 15, 2021
Mr. Naveed Malik	Head Consumer Banking	June 15, 2021