RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
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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 28, 2019*		*Jun 29, 2018*	
Tier 2 Sukuk	AA-		A+	
Rating Date	*Jun 28, 2019*		*Jun 29, 2018*	
Additional Tier 1 Sukuk	A+		A	
Rating Date	*Jun 28, 2019*		*Jan 9, 2019*	

COMPANY INFORMATION

Incorporated in 2005	**External auditors:** Deloitte Yousuf Adil, Chartered Accountants (from Jan 1, 2019) KPMG Taseer Hadi & Co., Chartered Accountants (till Dec 31, 2018)
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) enjoys a market share of 1.4% (2017: 1.2%) in terms of deposits as at end-2018. In terms of Islamic banking industry financing and deposits, the bank has market shares of 10.1% and 8.3%, respectively. 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 200 branches (2017: 200) and 40 booths (2017: 40). In the ongoing year, DIBPL plans to convert 25 booths to sub-branches. The bank also plans to set up 10 new full-fledged branches in 2019.

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. VIS expects this support to continue going forward.

Aggressive growth in financing portfolio with sizeable proportion of high yield consumer, commercial and SME loans in financing mix. Financing mix and sectoral exposures are diversified. While infection in the portfolio has witnessed some increase due to accretion of fresh NPFs, asset quality indicators continue to compare favorably to peers. Given the challenging macro-economic environment, selective growth in financing portfolio is planned for the ongoing year.

Gross financing portfolio increased to Rs. 155.5b (2017: Rs. 121.5b) at end-2018. Size of portfolio increased further to Rs. 160.8b by end-1Q19. Corporate financing book represents around half of the total financing mix followed by consumer segment at around 25%. Overall sectoral exposures remain diversified. Enhancing the overall yield of the portfolio was a key focus of the management's overall growth strategy over the last 3 years. Hence, proportion of relatively higher yield segments, especially SME & Commercial (SMEC), witnessed an increase during the outgoing year. Non-Performing Financings (NPF) of the bank stood at Rs. 2.9b (2017: Rs. 2.3b) at end-2018. However, sizeable growth in financing book translated into gross and net infection remaining at prior year's levels. In 1Q19, NPFs increased by 26.1% compared to previous quarter, as a result, gross and net infection depicted increase to 2.3% (gross infection) and 0.9% (net infection), respectively, compared to 1.9% and 0.6% in 2018. Given the challenging macro-economic environment, selective growth in financing portfolio is planned for the ongoing year. In view of the mid-term economic scenario and policy rate regime, maintaining asset quality indicators (particularly of the commercial and SME segment) is considered important from ratings perspective.

Liquidity buffer has improved in the ongoing year and will further improve as sizeable funds are planned to be deployed in Pakistan Energy Sukuk (PES) in the ongoing year. Improvement in deposit mix and concentration is also considered important from a ratings perspective.

Liquidity buffer carried on balance sheet increased to 34.4% (2018: 28.8%; 2017: 30%) at end-1Q19 as additional funds were deployed towards Pakistan Energy Sukuk. Given the planned issuance of the second tranche of PES shortly, liquidity buffer is expected to be strengthened further. Given the limited avenues for deployment, the bank had one of the highest advances to deposit ratios (ADR) among peers. The bank's ADR has increased to 81.8% (2017: 77.8%), as net financing growth (28.3%) outpaced deposits growth (22.0%) in 2018. Liquidity coverage ratio (LCR) of the bank stood at 191.98% (2018: 185.45%; 2017: 121.5%) against the regulatory requirement of 100% at end-1Q19. While being above regulatory requirement of 100%, Net Stable Funding Ratio (NSFR) at 106.63% (2017: 108.9%) was below peer group median of 127%. Depositor concentration levels increased on a timeline basis with top 100 depositors representing 40% (2017: 33%; 2016: 28%) of the total deposit base at end-2018 and depict room for improvement.

DIBPL benefits from its Shariah-compliant branding, particularly in the retail segment, among Pakistani citizens. Deposit base witnessed growth of 22.0% in 2018. In order to fund the aggressive growth in advances portfolio, the bank opted to increase the quantum of saving and fixed deposits. Resultantly, proportion of non-remunerative current accounts in deposit mix declined and was reported at 28.1% (2017: 30.8%). CASA was reported slightly lower at 63.2% (2017: 63.6%) at end-2018. Growth in overall deposit base of DIBPL in 2018 was higher than the average growth in industry deposits, as market share of the bank was reported at 1.4% (2017: 1.2%) at end-2018. By end-1Q19, CASA further increased to 64.5% on the back of drastic increase in saving deposits while total deposits equaled Rs. 197.8b. However, proportion of non-remunerative current accounts in deposit mix declined. For the full year 2019, management is projecting to increase the deposit base to Rs. 237.0b. Improving CASA ratio will be a key priority of the management. Management intends to focus on deposit mobilization through increased focus on cash management business, employee banking and branch relocation & network expansion.

Profitability indicators have depicted healthy growth and compare favorably to peer banks. Going forward, profitability profile is expected to improve further due to volumetric growth and increasing interest rate scenario, along with continued focus on expense reduction. Quantum of overall profitability will depend on provisioning charges against non-performing exposures.

Operating profitability of the bank registered sizeable growth during the outgoing year on the back of improvement in topline revenue and focused management of administrative expenses. Net markup income increased owing to volumetric increase in average earning assets. Spreads of the bank depicted relatively lower increase vis-à-vis the preceding year. Due to a lag in re-pricing of financing vis-à-vis deposits, with deposits being re-priced earlier, spreads of the bank will witness improvement over the course of 2019 (as observed during 1Q19), provided that the deposit mix remains consistent.

Fee & commission income decreased to Rs. 1,682.0m (2017: Rs. 1,695.6m) in 2018. This is attributed to drastic decline in commission on bancassurance to Rs. 37.8m vis-à-vis Rs. 215.7m in same period last year. Total trade volumes increased to Rs. 210b (2017: 170b). With growth in recurring income being higher than administrative expenses, efficiency ratio for full year improved to 57.3% in 2018 (2017: 67.6%). Management undertook various cost control measures including reduction in premises cost. In the ongoing year, focus on expense management is expected to continue. Provided that sound underwriting quality is maintained and growth in administrative expenses is restricted at a reasonable level, increase in topline will translate into higher profitability.

Credit and market risk emanating from the investment portfolio is considered manageable.

DIBPL's overall exposure to credit risk on investment portfolio is considered limited, given that domestic sovereign & government guaranteed exposure in relation to domestic investments stands at 87.5% (2017: 80.8%). Moreover, overseas government securities exposure in relation to overseas investments equaled 47.0% (2017: 47.4%) as at end-2018. Market risk is manageable with major proportion of fixed rate GoP Ijarah Sukuk (GIS) having matured in 1Q19. Remaining exposures (including recent investment in Pakistan Energy Sukuk-1) primarily comprise floating rate instruments. However, the bank remains exposed to interest rate risk on overseas debt securities.

Capitalization indicators have been supported by issuance of Basel 3 Tier-1 instrument in the outgoing year and internal capital generation. Maintaining capital buffers in line with benchmarks for the assigned ratings is considered important.

Capitalization indicators improved on account of accumulated profit and issuance of Tier-1 instrument amounting to Rs. 3.12b. Despite significant growth in risk weighted assets (RWAs), Tier-1 capital adequacy ratio (CAR) and CAR have depicted improvement on account of relatively higher increase in eligible capital. Leverage ratio was also reported well above regulatory requirements. Going forward, buffer over regulatory capital requirements will be a function of increase in RWAs and growth in equity base. Given the strategy of pursuing selective growth in financing portfolio and aggressive deployment in PES, increase in RWAs is expected to be lower vis-à-vis preceding years. Commitment of sponsors in case equity injection is needed to maintain cushion over regulatory CAR provides support to the bank's capitalization assessment.

Enhanced focus on improving control and IT infrastructure

DIBPL has deployed Oracle Financial Services Software (OFSS)'s "iFLEX" as the core banking software. Further upgrades and modifications are being undertaken to cater to the Bank's growing needs. KYC/AML software is also being upgraded to strengthen compliance regarding the same.

Dubai Islamic Bank Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR billions)*		
BALANCE SHEET	**31-Dec-18**	**31-Dec-17**
Total Investments	45.9	41.5
Islamic Financing & related assets	153.3	119.5
Total Assets	231.8	185.0
Borrowings	12.7	5.3
Deposits & other accounts	182.2	149.3
Subordinated Debt	7.1	4.0
Tier-1 Equity	19.7	14.7
Net Worth	17.6	15.1
INCOME STATEMENT	**31-Dec-18**	**31-Dec-17**
Net Mark-up Income	8.1	6.4
Net Provisioning	0.2	0.2
Non-Markup Income	2.2	2.1
Operating Expenses	5.9	5.7
Profit Before Tax	4.1	2.6
Profit After Tax	2.5	1.6
RATIO ANALYSIS	**31-Dec-18**	**31-Dec-17**
Market Share (Advances) (%)	2.9	1.9
Market Share (Deposits) (%)	1.4	1.2
Gross Infection (%)	1.9	1.9
Provisioning Coverage (%)	73.4	84.8
Net Infection (%)	0.6	0.4
Cost of deposits (%)	3.71	2.82
Net NPLs to Tier-1 Capital (%)	5.3	2.9
Capital Adequacy Ratio (C.A.R (%))	14.0	13.4
Markup Spreads (%)	4.32	4.23
Efficiency (%)	57.3	67.6
ROAA (%)	1.2	1.0
ROAE (%)	15.4	11.8
Liquid Assets to Deposits & Borrowings (%)	28.8	30.0

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				
6/28/2019	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				
6/28/2019	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				
6/28/2019	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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