RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
July 10, 2020

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, 2020*		*Jun 28, 2019*	
Tier 2 Sukuk	AA-		AA-	
Rating Date	*Jun 30, 2020*		*Jun 28, 2019*	
Additional Tier 1 Sukuk	A+		A+	
Rating Date	*Jun 30, 2020*		*Jun 28, 2019*	

COMPANY INFORMATION

Incorporated in 2005	**External auditors:** Deloitte 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) holds a market share of 1.4%, which has been maintained on a YoY basis. In terms of Islamic banking industry financing and deposits, the bank has market shares of 11.0% and 7.9%, 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 235 branches (Dec'18: 200) and 21 booths (Dec'18: 40) 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.

DIBPL's asset mix remains financing-centric. Amidst a heightened credit risk environment, asset quality indicators have been impacted.

Corporate financing remains the mainstay of the bank's financing operations, also being the main growth driver in financing, as consumer & SME financing remained depressed during the period. The sector-wise breakup of the portfolio depicts higher sector concentration. Akin to the industry, DIBPL's NPFs have increased, by almost 1.5x in 2019. In terms of sector exposures, the most significant contributors to infection were the textile, iron & steel and rubber & plastics sectors.

In Q1'20, as a result of non-performance of a large-sized exposure, the gross NPL has further increased. Even though gross infection remained below the peer median, the provisioning coverage has fallen significantly lower than the peer median and net infection, at 1.8%, marginally makes it into our AA band criteria. The sector concentration and trend in NPF growth remains a source of concern.

Going forward, the oncoming pandemic-induced headwinds are expected to test the portfolio asset quality. So far, SBP has taken notable measures to ease the expected credit crisis, resulting from the pandemic. However, the SBP-mandated relaxations are expected to delay the impact of prevailing headwinds on the portfolio asset quality indicators. The operating environment remains precarious, amongst intermittent lock downs with no definite deadline. In view of the same, the full impact of the pandemic on the industry is uncertain.

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

DIB's liquidity profile is considered weak vis-à-vis its peer median, which is mainly attributable to the (Islamic banking) industry dynamics, wherein Shari'a compliant liquidity placement avenues are limited. As of Dec'19, DIBPL's liquid assets as a percentage of deposits & borrowings were notably lower than the peer median, albeit comparing favorably to the Islamic banking industry. The bank's ADR has continues to remain on the higher side. In contrast to peers, DIBPL has the highest ADR, which is ~17% higher than the peer median. In addition the deposit granularity, even though having improved vis-à-vis SPLY, is considered to be on the higher side (Top 100 depositors Dec'19: 38%, Dec'18: 40%).

Going forward, deposit growth will be driven by the growth in branch network undertaken in the preceding year. The deposit mix depicted slight change, with a higher tilt towards fixed term deposits and a lower CASA ratio (%). However, both CA and CASA ratio are broadly aligned with the peer median. Going forward, reduction in deposit concentration and improvement in liquidity metrics is considered important from a ratings perspective.

DIBPL's profitability metrics have improved on a YoY basis, and compare favorably to peers. Going forward, there is a negative outlook on sector profitability, which will impact DIBPL's profitability as well.

In 2019, DIBPL's profitability metrics improved on the back of volumetric growth in earning assets, improvement in spreads and higher other income (FX Gains & Capital gain on securities portfolio). The bank's revenue base depicted strong growth of 28% during 2019; roughly four-fifths of the same was contributed by higher net spread income, while a fifth emanated from capital gain on securities & higher FX income. The bank's fee & commission income has not depicted any growth in the past couple of years and resultantly, its contribution to the bank's revenue base has dropped from 20% in 2017 to 13% in 2019. Growth in DIB's expense base went into double digits (12%), which was in line with the prevailing inflation. Given strong growth in recurring income, the bank's efficiency ratio has continued to depict improvement, and stands comfortably below the peer median.

As result of the uptick in portfolio infection, the provisioning burden has increased. In absolute terms, provisioning charges amounted to Rs. 722m vis-à-vis an average of ~Rs. 200m in the past 2 years. In terms of profitability, the bank compares favorably to peers with RoAA & RoAE being in excess of the peer median.

Going forward, the sector profitability is expected to weaken on account of the following; i) the drop in interest rates will negatively affect banking spread. So far, the interest rate has already dropped by 525 basis points. A review of historical banking spread in low interest regime indicates that spread shrinkage is likely going to be ~50 basis points; ii) the adverse credit risk environment – on account of the novel coronavirus outbreak – is expected to translate in increased provisioning burden. However, the charge of the same is expected to be rolled forward as a result of the SBP relief measures; iii) in view of the reduced economic activity, fee-related income and overall ancillary income will shrink; and iv) the SBP maintains its deadline for IFRS 9 implementation at January 1 2021, with deadline for pro-forma accounts preparation being August 31, 2020. The full provisioning impact of the same is expected to be sizable.

Capitalization is aligned with peer median, albeit it is expected to weaken amidst a depressed profitability and increased provisioning expectations

Given growth in equity on the back of internal profit generation and surplus on revaluation of investments (recognized through OCI), capitalization buffers have depicted improvement on a timeline basis. As of Dec'19, all capitalization metrics were aligned with the peer median.

Given strong growth in risk-weighted assets (RWAs), mainly emanating from an increase in off-balance sheet commitments in Q1'20 and a decline in surplus on revaluation of investments, the bank's CAR fell notably as of Mar'20. Amidst a depressed economic environment, financing activity is expected to stay limited, which should arrest the growth of RWAs. However, the capital adequacy will be affected by the heightened credit risk environment – on account of the novel coronavirus outbreak - and planned implementation of IFRS 9 by January 1, 2021, as a result of which capital adequacy buffer is expected to recede. However, the quantum of the impact remains uncertain, given an inability to ascertain the length of the prevailing pandemic and final impact on the sector. VIS will continue to closely monitor the capitalization ratios on quarterly basis.

Dubai Islamic Bank Limited **Appendix I**

FINANCIAL SUMMARY					*(amounts in PKR billions)*
BALANCE SHEET		**31-Dec-17**	**31-Dec-18**	**31-Dec-19**	**31-Mar-20**
Total Investments		41.5	45.9	49.2	53.5
Islamic Financing & related assets		119.5	153.3	177.9	182.0
Total Assets		185.0	231.8	264.6	280.5
Due to FIs		5.3	12.7	9.8	8.9
Deposits & other accounts		149.3	182.2	210.0	226.4
Subordinated Debt		4.0	7.1	7.1	7.1
Paid-up Capital		11.7	11.7	11.7	11.7
Tier-1 Equity		14.7	19.7	23.8	24.7
Net Worth		15.1	17.6	20.9	21.8
INCOME STATEMENT	**2017**	**2018**	**2019**	**Q1'19**	**Q1'20**
Net Mark-up Income	6.4	8.1	10.5	2.3	2.9
Net Provisioning	0.2	0.2	0.7	0.2	0.1
Non-Markup Income	2.1	2.2	2.8	0.5	0.5
Operating Expenses	5.7	5.9	6.7	1.5	1.9
Profit Before Tax	2.6	4.1	5.7	1.1	1.4
Profit After Tax	1.6	2.5	3.3	0.6	0.9
RATIO ANALYSIS		**31-Dec-17**	**31-Dec-18**	**31-Dec-19**	**31-Mar-20**
Market Share (Advances) (%)		1.9	2.0	2.2	2.2
Market Share (Deposits) (%)		1.2	1.4	1.4	1.5
Gross Infection (%)		1.9	1.9	2.5	3.3
Provisioning Coverage (%)*		84.8	73.4	63.3	49.5
Net Infection (%)		0.4	0.6	1.0	1.8
Cost of deposits (%)		2.82	3.53	6.36	NA
Net NPLs to Tier-1 Capital (%)		2.9	4.5	7.6	13.1
CET I CAR		10.48	9.75	12.14	11.74
Tier I CAR		10.48	11.59	13.96	13.44
Capital Adequacy Ratio (C.A.R (%))		13.39	14.00	17.13	15.72
Markup Spreads (%)		4.22	4.36	5.40	NA
Efficiency (%)		67.6	57.3	51.6	NA
ROAA (%)		1.0	1.2	1.3	1.3%**
ROAE (%)		11.8	15.4	17.4	16.4**
Liquid Assets to Deposits & Borrowings (%)		29.4	31.6	31.6	33.0%

*Includes General Provisions
** Annualized

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				
6/30/2020	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				
6/30/2020	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				
6/30/2020	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings.

Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**
	Syed Farhan Ahmed	CFO	June 10, 2020
	Mr. Naveed Malik	Head Consumer Banking	June 10, 2020
	Mr. Sajan H. Malik	CRO	June 10, 2020
	Mr. Zubair Haider Shaikh	Head, Corporate & Investment Banking	June 10, 2020