RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
June 29, 2022

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 16, 2022*		*Jun 30, 2021*	
Tier 2 Sukuk	AA-		AA-	
Rating Date	*Jun 16, 2022*		*Jun 30, 2021*	
Additional Tier 1 Sukuk	A+		A+	
Rating Date	*Jun 16, 2022*		*Jun 30, 2021*	

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 – June 2020
https://docs.vis.com.pk/docs/Meth-CommercialBanks202006.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 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') is a small sized bank with a market share of 1.25% (FY20: 1.33%) as of December 2021. 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. In August 2021, DIB was upgraded to 'A+/A-1' (Single A Plus/A-One) by Islamic International Rating Agency (IIRA), reflecting the completion of integration with Noor Bank, strong organic asset growth, maintenance of asset quality and better than peers' profitability indicators.

ADR continues to be on the higher side

Relative to peer and industry average, ADR (Gross Advances to Deposit) of the Bank remains on the higher side increasing to 93% as of Q1 2022. At these levels ADR is a rating concern. Management has budgeted to streamline the same going forward, however, would still remain higher than peer average. Moreover, with a large private sector exposure, higher ADR adds to the risk profile of the Bank.

Asset quality indicators have weakened on a timeline basis and need to be arrested going forward amidst heightened credit risk environment.

Remaining within the peers, asset quality indicators have weakened over timeline The additional provisioning burden year over year has limited profitability of the bank. DIBPL's financing portfolio comprises of primarily corporate players of mid to high risk profile operating in mainly Food & Beverages, Power (electricity), Gas & Water, Textile and Wholesale & Retail trade sectors.

In light of current macro events, exposure of banking sector to credit risk is considered on higher side amidst heightened external and internal vulnerabilities leading to unprecedented surge/disturbance in cost of doing business thus impacting overall profitability of the corporate players. We expect higher credit risk arising from performing portfolio may lead to additional provisioning burden, impacting profitability of the Bank going forward.

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

DIBPL's net investment portfolio grew by 27.5% to Rs. 84.8b (2020: Rs. 66.5b) at end 2021. Credit risk emanating from investment portfolio is considered manageable, as major portion of investments is parked in government guaranteed securities and Pakistan Energy Sukuk which features a sovereign guarantee and as such credit risk exposure is limited.

Market risk is manageable with major proportion of the portfolio being parked in floating rate instruments. However, the bank remains exposed to exchange rate risk on overseas debt securities, as well as credit risk on below investment grade foreign securities, albeit quantum of which remains small.

Liquidity profile is considered adequate

Liquidity profile of the Bank depicts improvement with diversion of funds towards investments as well as growth in CASA deposit composition over time. However, liquidity metrics lag behind peers. Proportion of liquid assets in relation to deposits and borrowings stand at 31.7% as of Dec 2021. The Bank maintains adequate cushion over the regulatory requirement of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Capitalization indicators depict a weakening trend on a timeline basis

The capitalization metrics of DIBPL depict a weakening trend over the past few years and is expected to come under further pressure given elevated credit risk within advances and as manifested in rise in RWA to Rs. 251.9b (2021: Rs. 238.3; 2020: Rs. 197.4b). Capital Adequacy Ratio (CAR) stood lower (Q1'22: 14.93%; 2021: 15.51%) at end-Mar'22.

Dubai Islamic Bank Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions) – Annexure I*					
BALANCE SHEET	**2018**	**2019**	**2020**	**2021**	**Q1 2022**
Investments	45,851	49,157	66,580	84,862	82,702
Net Advances	153,306	177,922	199,416	225,365	238,629
Total Assets	231,823	264,639	303,262	351,474	361,681
Borrowings	12,671	9,814	17,351	33,545	40,667
Deposits & other accounts	182,187	209,952	237,553	261,574	264,467
Subordinated Loans	7,120	7,120	7,120	7,120	7,120
Tier-1 Equity	17,571	20,897	23,798	26,884	27,779
Paid Up Capital	11,652	11,652	11,652	11,652	11,652
Total Equity	16,750	22,163	24,624	27,567	28,057
INCOME STATEMENT					
Net Markup Income	8,123	10,524	11,895	11,897	3,492
Net Provisioning / (Reversal)	222	722	2,135	2,098	517
Non-Markup Income	2,248	2,760	2,495	3,657	783
Administrative expenses	5,943	6,659	7,370	8,286	2,257
Profit/ (Loss) Before Tax	4,120	5,688	4,787	5,055	1,470
Profit / (Loss) After Tax	2,509	3,346	2,894	3,089	895
RATIO ANALYSIS					
Market Share (Advances) (%)	2.0%	2.2%	2.4%	2.2%	2.4%
Market Share Deposits) (%)	1.4%	1.4%	1.3%	1.2%	1.3%
NPLs	2,938	4,540	5,687	6,537	7,177
Gross Infection (%)	1.90%	2.50%	2.80%	2.78%	2.81%
Provisioning Coverage (%)	73%	63%	88%	106%	104%
Net Infection (%)	0.60%	1.00%	1.30%	1.10%	1.1%
Cost of deposits (%)	3.53%	6.36%	5.22%	3.73%	5.15%
Gross Advances to Deposits Ratio (%)	85.3%	86.1%	86.0%	88.8%	93.0%
Net NPLs to Tier-1 Capital	4.5%	7.6%	9.8%	8.4%	8.7%
Capital Adequacy Ratio (CAR)	14.00%	17.13%	16.89%	15.51%	14.93%
Net Spread on Earning Assets	4.36%	5.40%	5.05%	4.40%	4.80%
Efficiency	57%	52%	52%	55%	52.8%
ROAA	1.2%	1.3%	1.0%	0.9%	1.0%*
ROAE	15.4%	17.4%	12.9%	12.2%	13.1%*
Liquid Assets to Deposits & Borrowings	24.3%	25.2%	27.1%	31.7%	29.7

**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				
6/29/2022	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				
6/29/2022	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				
6/29/2022	AA-	-	Stable	Reaffirmed
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
Mr. Syed Farhan Ahmed	CFO	

	Mr. Naveed Malik	Head Consumer Banking	May 30, 2022
	Mr. Mujahid Zuberi	Head Corporate	
	Mr. Naim Abdullah	Head Treasury	
	Mr. Sohail Siddiq	Head SME	