RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
November 28, 2022

RATING ANALYSTS:

Amin Hamdani
amin.hamdani@vis.com.pk

RATING DETAILS	
Rating Category	**Preliminary Rating**
	Long-term
Tier 2 Sukuk	AA-
Rating Date	*November 28, 2022*
Outlook	Stable

COMPANY INFORMATION	
Incorporated in 2005	**External auditors:** Yousuf Adil, 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)
Rating Methodology - Commercial Banks – June 2020
https://docs.vis.com.pk/docs/Meth-CommercialBanks202006.pdf
Rating the Issue- November 2021
https://docs.vis.com.pk/docs/Notchingtheissue202007nov.pdf

Dubai Islamic Bank Pakistan Limited

OVERVIEW OF THE INSTITUTION

.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 Investments; 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

Incorporated in Pakistan as an unlisted public limited bank in 2005, Dubai Islamic Bank Pakistan Limited ('DIBPL' or 'the Bank') operates as an Islamic commercial bank in accordance with Shari'a principles. It forms part of Dubai Islamic Bank (DIB), the largest Islamic bank operating in UAE. DIB has been rated 'A+/A-1' (Single A plus/A-One) on the international scale by Islamic International Rating Agency (IIRA). 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 64 cities across Pakistan.

The Instrument: Tier II Capital Sukuk
DIBPL is in the process of issuing privately placed Tier II Sukuk amounting up to Rs. 4,000 million, with a face value of Rs. 1 million. Tenor of the instrument is ten (10) years with a Call Option exercisable after 5 years from the issue date. The same will be replacing the outstanding Tier II instrument for which call option has been exercised. SBP approvals for the same have been obtained.

The issue proceeds will contribute towards DIBPL's Tier-II Capital for complying with the Capital Adequacy ratio (CAR) requirement as mandated by the SBP under its Basel III framework, to be invested in the General Mudaraba Pool of DIBPL. The profit will be paid on semi-annual basis commencing after 6 months from issue date of Sukuk.

The Sukuk will be unsecured and subordinated in respect of the redemption proceeds of the Mudaraba and payment of the profit to all other indebtedness/payment obligations of DIBPL including its liability towards depositors. The Bank may call the Sukuk, with prior approval of SBP, on or after the five years from the date of issue, subject to not less than 15 days prior notice being given to the investors. The Instrument is subject to 1) Lock in Clause which states that neither profit nor Mudaraba Capital will be paid if such payments will result in shortfall in the Bank's Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR) or Leverage ratio (LR) or increase in any existing shortfall in the Bank's MCR or CAR or LR and 2) Loss Absorbency which highlights that upon the occurrence of a Point of Non-Viability event as defined by SBP's Basel III guidelines , SBP may at its option, fully and permanently convert the Sukuk into common shares of the Bank.

Non-performance risk:
Non-performance risk for the instrument is characterized by the presence of point of lock-in and loss absorbency clause. While the regulatory framework may not consider a missed coupon payment as a default; as per the credit rating methodology employed by VIS, any such missed payments will trigger one to several notch downgrade. Upon occurrence of Point of Non-Viability event as defined by SBP's Basel III guidelines, rating would deemed to have been withdrawn.

Entity:
During 2021, Dubai Islamic Bank Pakistan Limited witnessed asset growth of 15.9% to Rs. 351.4b which has increased to Rs. 434b at the end of September 30, 2022. Deposit base was recorded at Rs. 261.5b as of Dec 31, 2021, with a market share of 1.2%. Deposits continue to

grow to Rs. 301b by end of Q3’22. Gross loan portfolio registered an increase of 13.6% at end Dec’21 to Rs. 232b. In terms of advances, market share stood at 2.2%. Advances have grown by 26% in the current year to Rs. 284b. Capital Adequacy Ratio (CAR) of the Bank as of September 30, 2022 stood at 15.1% (2021: 15.51%; 2020: 16.89%), while Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were recorded at 119.94% (2021:162.45%; 2020: 203.92%) and 115.25% (2021:123.36%; 2020: 110.77%), respectively.

Entity ratings of DIBPL were last announced on June 29, 2022 as AA/A-1+ (Double A/A-One Plus). Outlook on the assigned ratings is ‘Stable’.

Dubai Islamic Bank Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions) – Annexure I*					
BALANCE SHEET	**2018**	**2019**	**2020**	**2021**	**Q3 2022**
Investments	45,851	49,157	66,580	84,862	103,789
Net Advances	153,306	177,922	199,416	225,365	284,865
Total Assets	231,823	264,639	303,262	351,474	434,054
Borrowings	12,671	9,814	17,351	33,545	76,644
Deposits & other accounts	182,187	209,952	237,553	261,574	301,590
Subordinated Loans	7,120	7,120	7,120	7,120	7,120
Tier-1 Equity	17,571	20,897	23,798	26,884	30,302
Paid Up Capital	11,652	11,652	11,652	11,652	11,652
Total Equity	16,750	22,163	24,624	27,567	29,442
INCOME STATEMENT					
Net Markup Income	8,123	10,524	11,895	11,897	13,338
Net Provisioning / (Reversal)	222	722	2,135	2,098	1,988
Non-Markup Income	2,248	2,760	2,495	3,657	2,782
Administrative expenses	5,943	6,659	7,370	8,286	7,350
Profit/ (Loss) Before Tax	4,120	5,688	4,787	5,055	6,637
Profit / (Loss) After Tax	2,509	3,346	2,894	3,089	3,415
RATIO ANALYSIS					
Market Share (Advances) (%)	2.0%	2.2%	2.4%	2.2%	N/A
Market Share Deposits) (%)	1.4%	1.4%	1.3%	1.2%	N/A
NPLs	2,938	4,540	5,687	6,537	8,347
Gross Infection (%)	1.90%	2.50%	2.80%	2.80%	2.80%
Provisioning Coverage (%)	73%	63%	88%	106%	107%
Net Infection (%)	0.60%	1.00%	1.30%	1.10%	0.8%
Cost of deposits (%)	3.53%	6.36%	5.22%	3.73%	N/A
Gross Advances to Deposits Ratio (%)	85.3%	86.1%	86.0%	88.8%	97.4%
Net NPLs to Tier-1 Capital	4.5%	7.6%	9.8%	8.4%	7.5%
Capital Adequacy Ratio (CAR)	14.00%	17.13%	16.89%	15.51%	15.1%
Net Spread on Earning Assets	4.36%	5.40%	5.05%	4.40%	N/A
Efficiency	57%	52%	52%	55%	46%
ROAA	1.2%	1.3%	1.0%	0.9%	3.4%
ROAE	15.4%	17.4%	12.9%	12.2%	47%
Liquid Assets to Deposits & Borrowings	24.3%	25.2%	27.1%	31.7%	N/A

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	Sukuk Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	28/11/2022	AA-		Stable	Preliminary
Tier-2 Instrument Structure	Basel 3 compliant Tier-2 Sukuk of Rs. 4b. The instrument is proposed to be Sharia compliant 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. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				