

RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:

June 26, 2023

RATING ANALYSTS:

Saeb Jafri

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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	June 26, 2023		June 29, 2022	
Tier 2 Sukuk	AA-		AA-	
Rating Date	June 26, 2023		December 02, 2022	
Additional Tier 1 Sukuk	A+		A+	
Rating Date	June 26, 2023		Jun 29, 2022	

COMPANY INFORMATION

Incorporated in 2005	External auditors: KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Unlisted Company	Chairman of the Board: Mohamed Saeed Ahmed Abdulla Al Sharif
Key Shareholders (with stake 5% or more): Dubai Islamic Bank PJSC, United Arab Emirates – 99.99%	Chief Executive Officer: Junaid Ahmed

APPLICABLE METHODOLOGY(IES)

VIS Financial Institution Rating (June 2023):

<https://docs.vis.com.pk/docs/FinancialInstitution.pdf>

VIS Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Dubai Islamic Bank Pakistan Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>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.</p> <p>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.</p> <p>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. He is a seasoned banker, who 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.</p>	<p>Dubai Islamic Bank Pakistan Limited (‘DIBPL’ or ‘the Bank’) is a subsidiary of Dubai Islamic Bank PJSC, operating independently since 2005 within the regulatory framework and banking laws of Pakistan. It has a market share (on deposits) of 1.54% (CY21: 1.25%) as of December 2022. DIBPL provides a range of retail, wholesale, treasury & investment banking, and capital markets products and services to individual, corporate and institutional customers.</p> <p>The Bank operates 235 branches across Pakistan.</p> <p>Banking sector</p> <p>The economy is currently facing several challenges, including a decrease in foreign reserves, a devaluing currency, and high inflation levels. To combat rising inflation, caused by the commodity super cycle and effects of Ukraine war, the central bank has implemented stricter monetary policies, resulting in a significant increase in the policy rate. This has led to higher funding costs for banks and impacted borrowers’ debt servicing ability. As a result, banks are adjusting by increasing provisions for potential loan losses and writing off non-performing loans. The economic slowdown will likely prompt stricter lending standards with banks continuing to remain heavily invested in sovereign exposures. Counterbalancing this, rising interest rates should help banks maintain their margins, partially offsetting the decline in earnings and allowing for improved profitability. However, there is increased credit risk and market risk vulnerability, especially in the face of any potential interest rate or currency fluctuations, which could impact the capitalization levels of banks. Looking ahead, the medium to long-term outlook for the fiscal account is challenging because the government is struggling to expand its revenue base. Public debt accumulation is accelerating, crowding out private sector credit. This trend also increases the risk of potential sovereign debt restructuring. Given banking sector balance sheets highly skewed towards Government paper, this could lead to liquidity and profitability challenges, particularly for small and medium-sized banks in the future.</p> <p>Key rating drivers</p> <p>Strong sponsor profile</p> <p>Ratings assigned to Dubai Islamic Bank Pakistan Limited (DIBPL) take into account the strong franchise of the institution given its association with Dubai Islamic Bank PJSC (DIB), the largest Islamic bank operating in United Arab Emirates. Parent support has been witnessed over time both in the form of financial support and technical knowledge transfer. Ratings also draw strength from the standalone financial profile of DIB, rated A+/A1 (Single A Plus / A One) on international scale ratings and AA (ae)/A1+(ae) on national scale ratings.</p>

Relative to peers, ADR levels remain on the higher side.

The bank historically has operated at a higher Advances to Deposit ratio (of around 80% average between 2018 and 2021) relative to peers and industry average. The levels, however, have been rationalized to some extent over the years with ADR as of March 2023 recorded at 75%. The higher ADR exposes the bank to higher credit risk vis-à-vis peers.

Ratings incorporate pressure on asset quality indicators, albeit remaining favorable to peers

While still below peer average, asset quality indicators depict a decline with gross infection at 4.5% at March '23 end. DIBPL's financing portfolio comprises of players of mid to high risk profile exposing the Bank to higher credit risk in challenging economic environment coupled with provisioning burden arising out of the same. Maintenance of asset quality metrics will remain important for future profitability.

Ratings incorporate higher spreads of the Bank.

The Bank has remained conscious of spreads which remain on the higher side compared to peers and industry average. We expect further uptick in spreads with the interest rates increasing in Q1'23. However, while this may contribute towards higher profitability, it may be offset through potential provisioning requirements that may arise in the future.

Market risk remains manageable.

With a large part of investments parked in floating rate government paper, market risk remains fairly manageable. In addition, while the Bank is facing a deficit on foreign securities, the quantum remains small.

Adequate Liquidity profile

Current Account Saving Account (CASA) deposit composition recorded some erosion in 2022, with an increase in fixed term deposits. Also deposit concentration reflects buildup including deposits arising from money market funds, which remain susceptible to higher volatility. Consequently, liquidity metrics record a decline, lagging behind that of peers. Improvement in liquidity profile will remain important.

Capitalization indicators remained fairly intact.

The capitalization metrics of DIBPL remained fairly intact at 15.83% as at March '23. While management is targeting to close 2023 at higher Capital Adequacy Ratio (CAR), which is viewed favorably, capitalization metrics remains sensitive to heightened credit risk.

Dubai Islamic Bank Limited
Appendix I

FINANCIAL SUMMARY				Rs. Million
BALANCE SHEET	2020	2021	2022	1Q2023
Total Investments	66,580	84,862	103,361	107,905
Gross Advances	204,412	232,313	259,283	264,444
Advances - net	199,416	225,365	247,768	251,056
Total Assets	303,262	351,474	445,390	412,361
Borrowings	17,351	33,545	35,875	43,366
Deposits & other accounts	237,553	261,574	345,811	308,672
Subordinated Sukuk (Tier I)	7,120	7,120	7,120	7,120
Paid Up Capital	11,652	11,652	11,652	11,652
Tier-1 Equity	26,610	29,635	32,821	33,819
Net Shareholders Equity (excl. revaluation surplus)	23,798	26,884	30,781	32,305
INCOME STATEMENT				
Net Mark-up Income	11,895	11,897	19,450	6,570
Net Provisioning	2,135	2,098	4,630	1,874
Non-Markup Income	2,495	3,657	3,500	843
Operating Expenses	7,370	8,286	10,132	2,796
Profit Before Tax	4,788	5,055	7,962	2,686
Profit After Tax	2,894	3,089	3,916	1,524
RATIO ANALYSIS				
Market Share (Domestic Advances) (%)	2.4%	2.3%	2.2%	2.2%
Market Share (Domestic Deposits) (%)	1.3%	1.3%	1.5%	1.3%
NPLs	5,687	6,537	9,815	11,889
Gross Infection (%)	2.78%	2.81%	3.79%	4.50%
Specific Provisioning Coverage (%)	54%	62%	85%	86%
Total Provisioning Coverage (%)	88%	106%	117%	113%
Net Infection (%)	1.29%	1.10%	0.59%	0.66%
Cost of deposits (%)	5.22%	3.73%	6.71%	8.09%
Net NPLs to Tier-1 Capital (adjusted for General Provisioning) (%)	9.13%	7.69%	4.11%	4.56%
Advances to Deposits (ADR) Adjusted for SBP Borrowings	78.96%	77.46%	64.60%	75.45%
Tier 1 CAR (%)	13.48%	12.44%	12.94%	13.18%
Capital Adequacy Ratio (C.A.R (%))	16.89%	15.51%	15.60%	15.83%
Markup Spreads (%)	5.2%	4.4%	5.9%	7.8%
Efficiency (%)	51.94%	55.33%	44.10%	37.72%
LCR (%)	203.92%	162.45%	125.42%	154.86%
NSFR (%)	110.77%	123.36%	131.28%	123.94%
ROAA (%)	1.02%	0.94%	0.98%	1.42%
ROAE (%) (Shareholder's Equity)	12.95%	12.19%	13.58%	19.32%
Liquid Assets to Deposits & Borrowings (%)	32.52%	35.70%	44.15%	36.97%

*Annualized

REGULATORY DISCLOSURES					Appendix II	
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	
	<u>RATING TYPE: ENTITY</u>					
	6/26/2023	AA	A-1+	Stable	Reaffirmed	
	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	
	<u>RATING TYPE: Additional Tier-1 Sukuk</u>					
	6/26/2023	A+	-	Stable	Reaffirmed	
	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	
	<u>RATING TYPE: Tier-2 Sukuk</u>					
	6/26/2023	AA-	-	Stable	Reaffirmed	
	12/02/2022	AA-	-	Stable	Final	
	11/28/2022	AA-	-	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	May 24, 2023			
	Mr. Naveed Malik	Head Consumer Banking				
	Mr. Mujahid Zuberi	Head Corporate				
	Mr. Naim Abdullah	Head Treasury				

Mr. Sohail Siddiq

Head SME