Dubai Islamic Bank Pakistan Limited

Chairman: Mr. Mohamed Saeed Ahmed Al Sharif; CEO: Mr. Junaid Ahmed

July 05, 2013

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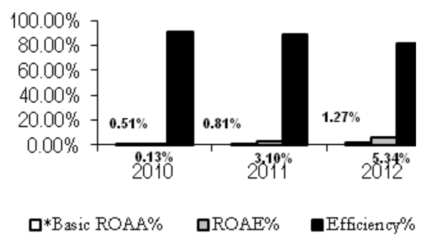
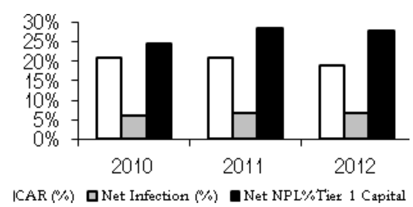
Category	Latest	Previous
Entity	A/A-1 *Jun 29, '13*	A/A-1 *Jun 29, '12*
Outlook	Positive *Jun 29, '13*	Positive *Jun 29, '12*

Key Financial Trends



** Based on recurring profit before provision and taxation*



	2010	2011	2012
Net Financings (Rs. in b)	23.0	23.9	26.3
Deposits(Rs.in b)	31.4	38.5	53.1
Market Share %	0.6	0.7	0.7
Deposit Cost (%)	6.7	6.7	5.8
Profit / (Loss) (Rs.in m)	8.1	190.5	345.7
Net Worth (Rs. in b)	6.0	6.2	6.9
CAR (%)	20.9	20.9	19.06
Liquid Assets % Deposits & Borrowings	38.3%	47.5%	61.4%
Net Infection (%)	6.0	6.9	6.8

Rating Rationale

Dubai Islamic Bank Pakistan Limited (DIBPL), a wholly owned subsidiary of Dubai Islamic Bank PJSC, United Arab Emirates (DIB), witnessed overall growth of 32% as its balance sheet footing augmented to Rs. 63.5b by year-end 2012 (2011: Rs. 48.2b). Deposit base posted growth of 38%, closing at Rs. 53.1b (FY11: Rs. 38.5b) at the end of the same period. Expansion in the branch network enhanced outreach and facilitated deposit mobilization activities. DIBPL operated through a network of 100 branches (FY11: 75) and 15 Branchless Banking Booths (BBBs) at end-2012. The bank plans to set up 25 additional branches and 25 BBBs during 2013.

Liquidity generated through deposits was largely channeled towards the investment portfolio during the year under review; DIBPL continues to invest heavily in government securities. Few foreign currency Sukuk (UAE based issuers) were also added to the portfolio with the advice and assistance of the parent bank. Risk arising from the investment portfolio is considered manageable.

Overall liquidity profile of the bank improved, with liquid assets representing 61.4% of total deposits and borrowings at end-2012. Liquidity profile also draws comfort from improving granularity in deposit mix. The proportion of top 10 deposits declined to 7.5% (FY2011: 14.1%) of total deposits at end-Dec'12. The cost of deposits also declined to 5.8% in FY12 in line with industry trend as State Bank of Pakistan (SBP) reduced the discount rate during the year; moreover, DIBPL has also temporarily halted distribution of 'hiba' in order to shed off big ticket, rate sensitive deposits.

Reduction in deposit cost has largely allowed the bank to off-set the impact of lower return on profit bearing assets; spreads declined slightly to 7.1% (FY11: 7.3%) in FY12. A larger earning base allowed the bank to post improvement in core earnings. There has been some improvement in overheads in 2012 and further dilution may be achieved as the bank continues to grow. Given the relaxation in time based provisioning criteria against two non-performing financings, the impact of past credit losses has yet to be fully absorbed by the bank; net infection stands at 6.8%.

Corporate financing portfolio of DIBPL increased in FY12 as the bank tapped new clients in the textile sector and also took fresh exposures in new sectors such as sugar and food (public sector organization). However, consumer portfolio declined during 2012 owing to a reduction in the mortgage portfolio. The management has projected increase in lending activities in the on-going year. In addition to deepening relationships with existing clients, the bank plans to tap fresh clients in sectors previously unexplored.

DIBPL's capital base of Rs. 6.9b stands short of the Minimum Capital Requirement (MCR) of Rs. 7.5b stipulated for FY12. In this regard, SBP had granted exemption to the bank till April 30, 2013. By end-Dec'13, all banking institutions are required to maintain capital (net of losses) of Rs. 10b. DIBPL is in compliance with the minimum Capital Adequacy Ratio (CAR) of 15% as its CAR stood at 19.06% at end-Dec'12.

DIBPL has a well rounded top management team, which has extensive experience in the banking sector. During 2012, IT upgraded the Disaster Recovery (DR) site, which was also successfully tested. In addition, Treasury operations were completely automated during the period i.e. front to back office by way of implementation of 'Web Tech' application. Investment in IT infrastructure will require to be made on a continuous basis, in line with the bank's growth plans.

Overview of the Institution

DIBPL, a wholly owned subsidiary of Dubai Islamic Bank PJSC UAE (DIB), has been incorporated in Pakistan as a public limited bank and commenced operations on March 28, 2006. DIB was established in 1975 and is the first Islamic bank of the world. The largest shareholder of DIB is the investment arm of the Government of Dubai – Investment Corporation of Dubai. DIBPL operated with a network of 100 branches as at end-Dec 2012. M/s A.F. Ferguson & Co. was the external auditor for FY12 JCR-VIS