RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
July 03, 2015

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		**Previous Rating**	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Outlook	Positive		Stable	
Rating Date	*Jun 30, '15*		*Jun 30, '14*	

COMPANY INFORMATION	
Incorporated in 2005	External auditors: **M/s A.F. Ferguson & Co., Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. Mohamed Saeed Ahmed Al Sharif**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Junaid Ahmed**
Dubai Islamic Bank PJSC, United Arab Emirates – 100%	

APPLICABLE METHODOLOGY(IES)
PRIMER - Commercial Banks (December 2001): ***http://jcrvis.com.pk/images/primercb.pdf***

Dubai Islamic Bank Pakistan Limited

OVERVIEW OF THE INSTITUTION

DIBPL, a wholly owned subsidiary of DIB PJSC, was incorporated in Pakistan as a public limited bank in May 2005. 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 operates with a network of 175 branches and 47 branchless banking booths as at end-Dec 2014.

RATING RATIONALE

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 DIBPL reflected by solid funding base largely comprising cost effective retail deposits, sound asset quality indicators, increasing core earnings and bank's moderate risk appetite.

Asset base has increased steadily, funded by deposits, on the back of expanding branch network. In line with the business plan, DIBPL enhanced its focus on financing activities during the outgoing year. In addition to deepening relationships with public sector entities and some of the leading conglomerates, a number of new mid tier corporate clients were tapped; overall risk appetite remained moderate. Consumer portfolio continues to grow along with additions in product offering; however its share in overall financing has trended downwards. Financing activities are projected to continue to grow at an accelerated pace in the coming years; improving overall economic environment may facilitate the bank in achieving these targets. Asset quality indicators have so far remained sound; quality of fresh financing will be tested over time as the portfolio seasons.

With additional funding channeled into financing activities, the bank's advances to deposit ratio has increased over time. Liquidity profile remains comfortable with liquid assets representing 45.1% (FY13: 59.4%) of total deposits and borrowings and further supported by the granularity in deposits. The bank has a well diversified deposit mix, with the proportion of top ten deposits declining further to 6.7% (FY13: 8.4%) of total deposits. Moreover, DIBPL has one of the lowest cost of deposit in the overall banking sector. The management remains focused on pursuing broad based growth in deposits in a cost effective manner. Market share of DIBPL in terms of deposits of Islamic banking industry stood at 7.8% at end-FY14 while it was 1% in relation to overall banking sector deposits.

Most of the liquid assets currently carried on balance are parked in GoP Ijarah Sukuk. The initiation of open market operations for Islamic banks has opened an additional avenue for deployment. Approaching maturities of GoP Ijarah Sukuk in the back drop of no fresh issuance since June 2014 is likely to pose liquidity management challenges for Islamic banks in addition to creating pressure on profitability if SLR is to be met through deployment in other less earning avenues, going forward.

In line with banking industry, profitability of DIBPL remained strong during FY14. Profitability was driven by growth in resource base, improved efficiency levels, contained deposit cost while non-fund income also supplemented the bottom line. Given that spreads may come under pressure on account of re-pricing of most assets at lower level while there may be limited room for adjustment in deposit cost, achievement of future profitability targets largely depends on growth in earning assets while ensuring that asset quality remains intact.

Positive momentum in earnings is important to meet the MCR through internal capital generation. The amount raised through subordinated debt, as an interim arrangement, is placed in a non-remunerative account with SBP.

The management team of DIBPL comprises seasoned resources having extensive experience in their respective domains. Stability of the team is considered important to achieve overall strategic objectives of the institution.

Dubai Islamic Bank Limited Appendix II

FINANCIAL SUMMARY *(amounts in PKR billions)*

BALANCE SHEET	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Total Investments	18.3	25.0	21.3
Advances	58.8	35.5	26.3
Total Assets	101.6	80.3	63.5
Borrowings	3.6	2.9	1.6
Deposits & other accounts	83.8	67.6	53.1
Subordinated Loans	3.1	-	-
Tier-1 Equity	7.5	6.9	6.8
Net Worth	7.4	7.0	6.9

INCOME STATEMENT	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Net Mark-up Income	4.1	3.1	2.9
Net Provisioning	0.3	0.5	0.2
Non-Markup Income	1.1	0.7	0.7
Operating Expenses	4.0	3.2	3.4
Profit Before Tax	0.9	0.2	0.5
Profit After Tax	0.6	0.1	0.3

RATIO ANALYSIS	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Market Share (Advances) (%)	1.3	0.9	0.7
Market Share (Deposits) (%)	1.0	0.9	0.8
Gross Infection (%)	3.9	7.1	9.2
Provisioning Coverage (%)	61.0	48.8	28.4
Net Infection (%)	1.6	4.0	6.8
Cost of deposits (%)	4.3	4.2	5.8
Net NPLs to Tier-1 Capital (%)	12.1	21.6	26.1
Capital Adequacy Ratio (C.A.R (%))	17.1	14.6	19.1
Markup Spreads (%)	5.2	5.1	6.4
Efficiency (%)	79.0	83.2	84.5
Basic ROAA (%)	1.2	0.9	1.1
ROAA (%)	0.7	0.2	0.6
ROAE (%)	8.3	2.0	5.0
Liquid Assets to Deposits & Borrowings (%)	45	59	63

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 IV

Name of Rated Entity	Dubai Islamic Bank Pakistan Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)
Instrument Structure	N/A
Statement by the Rating Team	JCR-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	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
6/30/2015	A+	Positive	A-1	Maintained
6/30/2014	A+	Stable	A-1	Upgrade
7/2/2013	A	Positive	A-1	Reaffirmed
7/3/2012	A	Positive	A-1	Maintained
6/30/2011	A	Stable	A-1	Reaffirmed