RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
July 4, 2016

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Positive	
Rating Date	*June 30, 2016*		*June 30, 2015*	

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 Methodology - November 2015
http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf

Dubai Islamic Bank Pakistan Limited

OVERVIEW OF THE INSTITUTION

DIBPL, a wholly owned subsidiary of DIB, 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 200 branches and 43 branchless banking booths as at end-Dec 2015.

RATING RATIONALE

Ratings assigned to Dubai Islamic Bank Pakistan Limited (DIBPL) are driven by strong profile of its sponsor. As one of the oldest Islamic banks, Dubai Islamic Bank PJSC, UAE (DIB) enjoys strong franchise in the UAE, having a market share of about 5% in terms of assets. At end December 2015, balance sheet footing of DIB amounted to around US $41b with a Capital Adequacy Ratio of 15.7%. Parent support has been evident over time both in the form of financial support and technical knowledge transfer.

In addition to strong sponsor profile, risk profile of DIBPL is also considered sound on a standalone basis as reflected by its solid funding base largely comprising cost effective retail deposits, sound asset quality indicators, increasing core earnings and bank's moderate risk appetite.

- **Capitalization:** At year-end 2015, the bank reported net equity of Rs. 8.0b vis-à-vis minimum capital requirement of Rs. 10.0b. In order to meet the requirement, State Bank of Pakistan (SBP) allowed the bank to raise foreign currency sub-ordinated debt from sponsor and place the same in non-remunerative deposit account with SBP to meet the said requirement for a three year term. The funds placed with SBP are considered eligible for CAR/MCR purposes. This deposit is only a short term arrangement and the bank is required to meet the MCR of Rs. 10.0b by December 31, 2016.
- **Advances:** Growth in financing activities picked up considerable pace in the out-going year, with increase in financing portfolio largely manifested in its corporate portfolio maintaining sound credit quality of the portfolio. In recent years, lending to the corporate sector has remained the primary focus of the bank with the share of same increasing to around three-fourth of gross finances. Disbursements of these loans have been largely made to blue chip companies. Infection levels of the bank also improved to 2.1% (FY14: 3.9%) with growth in financing portfolio. However, the bank made additional provisions during FY15 enhancing provisioning coverage to about 76.7% (end-FY14: 63.7%), while net infection reduced to 0.6% (end-FY14: 1.5%). Going forward, the bank plans to consolidate its lending portfolio by replacing low yielding assets with higher yielding ones. Advances reduced in the first quarter of 2016 on account of retirement of certain short term advances.
- **Investments:** Liquidity management remains an issue for Islamic banks because of lack of market depth. Investment strategy of the bank has largely remained conservative, with the portfolio mostly comprising debt instruments with sound credit quality; in case of local currency bonds, return is re-set to market benchmark rates periodically, curtailing the bank's exposure to interest rate risk. Foreign currency bonds entail fixed rate coupon; given exposure in foreign currency bonds, there is notable interest rate risk exposure of the bank. In order to manage currency risk, the bank invests foreign currency deposits into foreign currency sukuks.
- **Liquidity:** Liquid assets comprising 31.1% of total deposits & borrowings at year-end (end-FY14: 43.6%). Moreover, deposits amounting more than 10m increased in proportion from 58% to 65%. This depicts a decline in granularity in deposit base. Top ten deposits as a proportion of total deposits also increased to 14.8% (FY14: 6.7%) at end-FY15. Going forward, the management may ensure granularity in deposits to mitigate concentration risk. With an expansion in branch network, positive momentum in the deposit mobilization activities of the bank is expected.
- **Profitability:** Despite pressure on spreads during the outgoing year, DIBPL managed to increase its profit on the back of volumetric growth. Management anticipates mitigating pressure on spreads by building its portfolio in higher yielding assets coupled with lower cost deposits.

Dubai Islamic Bank Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Total Investments	18.5	18.3	25.0
Advances	105.0	58.8	35.5
Total Assets	157.1	101.6	80.3
Borrowings	4.6	3.6	2.9
Deposits & other accounts	136.7	83.8	67.6
Subordinated Loans	3.2	3.1	-
Tier-1 Equity	8.0	7.5	6.9
Net Worth	8.0	7.4	7.0
INCOME STATEMENT	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Net Mark-up Income	4.6	4.1	3.1
Net Provisioning	0.2	0.3	0.5
Non-Markup Income	1.3	1.1	0.7
Operating Expenses	5.0	4.0	3.2
Profit Before Tax	0.7	0.9	0.2
Profit After Tax	0.4	0.6	0.1
RATIO ANALYSIS	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Market Share (Advances) (%)	2.2	1.3	0.9
Market Share (Deposits) (%)	1.4	1.0	0.9
Gross Infection (%)	2.1	3.9	7.1
Provisioning Coverage (%)	76.7	61.0	48.8
Net Infection (%)	0.6	1.6	4.0
Cost of deposits (%)	3.8	4.5	4.2
Net NPLs to Tier-1 Capital (%)	6.2	12.1	21.6
Capital Adequacy Ratio (C.A.R (%))	11.1	17.1	14.6
Markup Spreads (%)	4.5	5.8	5.1
Efficiency (%)	84.7	79.0	85.6
Basic ROAA (%)	0.7	1.2	0.9
ROAA (%)	0.3	0.7	0.2
ROAE (%)	5.6	8.3	2.0
Liquid Assets to Deposits & Borrowings (%)	31.1	43.6	52.7

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: 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 III

Name of Rated Entity	Dubai Islamic Bank Pakistan Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
6/30/2016	A+	Stable	A-1	Maintained
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

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.
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