Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
June 20, 2017

RATING ANALYSTS:
Talha Iqbal
talha.iqbal@jcrvis.com.pk

Momina Masood
momina.masood@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA-	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	*May 17, 2017*		*June 30, 2016*	

COMPANY INFORMATION

Incorporated in 2005	**External auditors:** M/s KPMG Taseer Hadi & 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 – 99.99%	

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

Incorporated in Pakistan as a public limited bank, Dubai Islamic Bank Pakistan Limited (DIBPL) operates as an Islamic commercial bank in accordance with Shari'a principles. The bank operates out of 200 branches (2015: 200) and 38 booths (2015: 42).

Profile of Chairman

Mr. Mohamed Saeed Ahmed Abdulla Al Sharif serves as chairperson of the Board. Currently, Mr. Sharif serves as Chief of Investment Banking at DIB, UAE; his experience spans over 28 years

Profile of CEO

Mr. Junaid Ahmed is the CEO of DIBPL. Mr. Ahmed's affiliation with banking industry spans over 39 years. Moreover, he has held directorship in various banks.

RATING RATIONALE

Sponsor Support: 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. DIB has been rated 'A/A-1' (Single A/A-One) on the international scale by Islamic International Rating Agency.

Financing Mix: During 2016, DIBPL pursued a consolidation strategy which has resulted in significant improvement in financing and deposit mix. While financing portfolio declined, growth was noted in consumer and commercial & SME segment. Resultantly, contribution of corporate financing book declined to 60% (2015: 75%) of total portfolio while proportion of consumer financing increased to one-fourth of financing portfolio. Asset quality indicators of the bank compare favorably to peers.

Credit Risk: On the deposit front, the positives were significant increase in proportion of non-remunerative deposits and reduction in depositor concentration levels. However, liquid assets carried on the balance sheet have declined and are on the lower side vis-à-vis peers. Going forward, management has projected to further increase the deposit base while maintaining cost of deposits at adequate levels.

Capitalization: Capitalization levels of bank have strengthened on a timeline basis on account of equity injection to the tune of Rs. 1.4b and conversion of USD 31 million subordinated loan to equity through issuance of right shares. This along with increase in retained profits has resulted in higher equity base of Rs. 13.8b (2016: Rs. 12b; 2015: Rs. 7.98b) at end-1Q17. With increase in capital base being higher than growth in risk weighted assets (RWAs), tier-1 and overall CAR increased to 11.21% (2016: 11.09%; 2015: 9.66%) and 11.36% (2016: 11.22%; 2015: 11.13%) respectively. Net NPFs to Tier 1 equity at 5.9% (2015: 6.2%) is also on the lower side vis-à-vis peers. Going forward, improved profitability along with Rs. 4b planned tier-2 Sukuk is expected to support planned growth in RWAs. Moreover, commitment of sponsors in case equity injection is needed to maintain cushion over regulatory CAR provides support to the bank's capitalization assessment.

Profitability: Profit before tax of the bank increased by 93% and 59% during 2016 and 1Q17, respectively, on the back of improvement in core profitability. Key profitability drivers include shift in financing mix towards high yielding segments, reduction in cost of deposits and increase in fee based income. Moreover, increase in administrative expenses has remained largely in line with inflation. The ratings are underpinned by the projected growth in profitability, improved efficiency and sustained asset quality indicators.

Dubai Islamic Bank Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR billions)*

BALANCE SHEET	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Total Investments	27.2	18.5	18.3
Islamic Financing & related assets	93.9	105.0	58.8
Total Assets	152.1	157.1	101.6
Borrowings	5.7	4.6	3.6
Deposits & other accounts	129.3	136.7	83.8
Subordinated Loans	0	3.2	3.1
Tier-1 Equity	11.8	9.6	7.2
Net Worth	12.1	8.0	7.4
INCOME STATEMENT	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Mark-up Income	5.2	4.6	4.1
Net Provisioning	0.1	0.2	0.3
Non-Markup Income	1.6	1.3	1.1
Operating Expenses	5.3	5.0	4.0
Profit Before Tax	1.4	0.7	0.9
Profit After Tax	0.9	0.4	0.6
RATIO ANALYSIS	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Market Share (Advances) (%)	1.7	2.2	1.3
Market Share (Deposits) (%)	1.2	1.4	1.0
Gross Infection (%)	2.5	2.1	3.9
Provisioning Coverage (%)	74.4	76.7	61.0
Net Infection (%)	0.7	0.6	1.6
Cost of deposits (%)	3.1	3.8	4.5
Net NPLs to Tier-1 Capital (%)	5.9	6.2	12.1
Capital Adequacy Ratio (C.A.R (%))	11.2	11.1	17.1
Markup Spreads (%)	3.8	4.5	5.8
Efficiency (%)	80.1	84.7	79.0
ROAA (%)	0.6	0.3	0.7
ROAE (%)	9.5	5.6	8.3
Liquid Assets to Deposits & Borrowings (%)	40.2	31.1	43.6

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				
5/17/2017	AA-	Stable	A-	Upgrade
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

Proposed Instrument Structure	Basel 3 compliant Tier-2 Sukuk of Rs. 4b (inclusive of Greenshoe Option of Rs. 1b). The Sukuk will be Unsecured, Subordinated and Privately Placed Tier-II Mudaraba Sukuk.
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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