RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
July 4, 2018

RATING ANALYSTS:
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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
Sukuk 1	A+		A+	
Rating Outlook	Stable		Stable	
Rating Date	*June 29, 2018*		*May 17, 2017*	

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 Abdulla 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 – March 2018
http://jcrvis.com.pk/docs/Meth-CommercialBanks201803.pdf

Dubai Islamic Bank Pakistan Limited

OVERVIEW OF THE INSTITUTION

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. The bank operates out of 200 branches (2016: 200) and 40 booths (2016: 38).

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 30 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) incorporate sound profile of the sponsor, Dubai Islamic Bank (DIB), the largest Islamic bank operating in United Arab Emirates. DIB has been rated 'A/A-1' (Single A/A-One) on the international scale by Islamic International Rating Agency (IIRA). Support from the parent has been witnessed in the past both in the form of financial assistance and technical knowledge transfer. JCR-VIS expects this support to continue going forward.

Financing Mix: The management adopted growth strategy in 2017. Gross financing portfolio registered a sizeable increase of approximately 27% in 2017 vis-à-vis the preceding year. Given the management's focus on increasing yield, majority of the growth was undertaken in high yielding segments, thereby slightly increasing yield on advances Resultantly, contribution of corporate financing book declined to 52% (2015: 63%) of total portfolio. Despite growth in portfolio quantum, non-performing loans decreased to Rs. 2.3b (2016: Rs. 2.4b); hence an improvement was witnessed in the asset quality indicators during the outgoing year. Underwriting indicators need to be monitored closely in the view of the anticipated increasing interest scenario, going forward.

Liquidity: Liquidity profile of the bank needs to be strengthened in terms of proportion of liquid assets in relation to deposits and borrowings and lower granularity in deposit base. However, the bank remains compliant with the regulatory requirements of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) ratios. In order to fund the aggressive growth in advances portfolio, the bank opted to increase the quantum of fixed deposits; hence, proportion of the same in overall deposit mix increased on timeline basis. Going forward, management has projected to further increase the deposit base with primary focus on current deposits to maintain cost of deposits at adequate levels.

Capitalization: Capitalization indicators, including Tier I capital, Capital Adequacy Ratio (CAR) and leverage ratio, have depicted improvement on the back of injection of additional capital, retention in profits and controlled growth in risk weighted assets (RWAs). Net NPL to Tier I equity ratio has also depicted improvement on the back of recoveries and remains on the lower side vis-à-vis the peers. Given the budgeted growth in RWAs, capitalization indicators of the bank are expected to remain compliant with the regulatory requirements in 2018. However, growth in RWAs post 2018 may present a challenge for the bank; however, the management is confident that the sponsor will inject additional capital to support the projected growth in advances portfolio. Moreover, the bank plans to issue additional Tier I and Tier II Sukuk.

Profitability: Profitability of the bank depicted sizeable increase in Q1'18 and 2017 vis-à-vis the corresponding periods in the preceding year. This increase was primarily attributed to volumetric growth in average earning assets resulting in higher topline and controlled growth in expenses of the bank. Spreads of the bank were also reported higher largely due to decrease in cost of deposits. Efficiency (cost to income) ratio improved to 67.6% (2016: 80.1%) in 2017. 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, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Total Investments	41.5	27.2	18.5
Islamic Financing & related assets	119.5	93.9	105.0
Total Assets	182.3	152.1	157.1
Borrowings	5.3	5.7	4.6
Deposits & other accounts	149.3	129.3	136.7
Subordinated Debt	4.0	0	3.2
Tier-1 Equity	14.7	11.8	9.6
Net Worth	15.1	12.1	8.0
INCOME STATEMENT	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Net Mark-up Income	6.6	5.2	4.6
Net Provisioning	0.2	0.1	0.2
Non-Markup Income	1.9	1.6	1.3
Operating Expenses	5.7	5.3	5.0
Profit Before Tax	2.6	1.4	0.7
Profit After Tax	1.6	0.9	0.4
RATIO ANALYSIS	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Market Share (Advances) (%)	1.9	1.7	2.2
Market Share (Deposits) (%)	1.2	1.2	1.4
Gross Infection (%)	1.9	2.5	2.1
Provisioning Coverage (%)	84.9	74.7	76.7
Net Infection (%)	0.4	0.7	0.6
Cost of deposits (%)	2.8	3.1	3.8
Net NPLs to Tier-1 Capital (%)	2.9	5.9	6.2
Capital Adequacy Ratio (C.A.R (%))	13.4	11.2	11.1
Markup Spreads (%)	4.3	3.8	4.5
Efficiency (%)	67.6	80.1	84.7
ROAA (%)	0.9	0.6	0.3
ROAE (%)	11.5	9.5	5.6
Liquid Assets to Deposits & Borrowings (%)	29.4	33.9	31.1

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				
6/29/2018	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
RATING TYPE: Sukuk I				
6/29/2018	A+	-	Stable	Reaffirmed
9/5/2017	A+	-	Stable	Final
6/22/2017	A+	-	Stable	Preliminary

Proposed 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	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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