RATING REPORT

Dubai Islamic Bank Pakistan Limited

REPORT DATE:
December 07, 2018

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RATING DETAILS	
Rating Category	**Latest Rating**
	Long-term
ADT-1 Sukuk	A
Rating Outlook	Stable
Rating Date	*Dec 07, 2018*

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 (2017: 200) and 40 booths (2017: 40).

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

Dubai Islamic Bank Pakistan Limited (DIBPL) is one of the fastest growing Islamic banks and enjoys a market share of 1.44% (2017: 1.2%; 2016: 1.2%) in domestic deposits as at end-Sep'2018. Asset base of DIBPL was reported at Rs. 223.2b (2017: Rs. 182.3b) at end-9MCY18. Growth in asset base has primarily been funded through increase in deposits. Financing portfolio represents the major portion of asset base at 66.8% followed by investments at 20.5%.

Strong Sponsor Support

Ratings assigned to 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.

Growth momentum has continued in financing portfolio. Financing mix and sectoral exposures are diversified with asset quality indicators comparing favorably to peers.

After increasing by 27% during 2017, gross financing portfolio grew by 24.4% during 9MCY18. Broad based growth in financing portfolio has been witnessed with all three key segments (Corporate, SME & Commercial (SMEC) and Consumer) recording double digit during 2017 and 9MCY18. Fastest growth was undertaken in high yielding SMEC segment where proportion in financing mix has increased to 23.8% (2017: 18.9%; 2016: 12.3%) as at end-Sep'2018. Corporate financing book represents around half of the total financing mix followed by consumer segment at around 25%. Overall sectoral exposures are diversified and have remained similar to period end-Sep'2018. Asset quality indicators compare favorably to peers with gross and net infection reported at 1.7% (2017: 1.9%) and 0.46% (2017: 0.4%), respectively. Given the increasing interest rates and projected slowdown in GDP growth, maintaining asset quality indicators, particularly in the SMEC segment, is considered important from a ratings perspective.

Deposit base witnessed healthy growth while deposit mix and concentration has weakened during 9MCY18. Liquidity cushion remains low vis-à-vis peer banks

Liquidity profile of the Bank is considered adequate with LCR (9MCY18: 145%; 2017: 121.5%) and NSFR (9MCY18: 108.1%; 2017: 113.02%) ratio remaining above regulatory requirement. Liquid assets in relation to deposits and borrowings is on the lower side at around 30% while gross ADR ratio (adjusted for export refinance) remains on the higher side at around 77% at end-9MCY18. Deposit base increased by 25.5% during 9MCY18. In order to fund the aggressive growth in advances portfolio, the bank opted to increase the quantum of fixed deposits. Resultantly, proportion of non-remunerative current accounts in deposit mix declined and was reported at 25.7% (2017: 30.8%). Moreover, concentration in deposit base remains on the higher side and has room for improvement.

Strong profitability growth with profit before tax increasing at a 3 year (2015-2018) Compound Annual Growth Rate of 66%. Improvement in spreads (from 2019 onwards) due to increasing interest rates to help sustain profitability growth provided non-performance in the financing portfolio remains within manageable levels.
Profit before tax of the bank increased by 86.9% and 67% during 2017 and 9MCY18, respectively, on the back of improvement in core profitability. Key profitability drivers include shift in financing mix towards high yielding segments, volumetric growth in earning assets and limited growth in administrative expenses (largely in line with inflation). However, overall fee based income remained stagnant primarily due to lower bancatakaful fee generated during the period. Improvement in core profitability is reflected in sizeable improvement in cost to income ratio (9MCY18: 58.7%; 2017: 67.6%; 2016: 80.1%) which now compares favorably to medium sized banks. Improvement in spreads (from 2019 onwards) due to increasing interest rates to help sustain profitability growth provided non-performance in the financing portfolio remains within manageable levels.

Capitalization indicators have weakened on a timeline basis due to aggressive growth in financing portfolio. In the backdrop of increasing regulatory requirements, proposed Basel 3 Tier-1 Sukuk along with healthy internal capital generation planned to reinforce capitalization buffers.
Equity base of the bank has consistently increased over time on account of retained profits and equity injection. Equity base (excluding deficit on investments) was reported at Rs. 16.9b (2017: Rs. 15b) at end-9MCY18. With increase in in risk weighted assets (RWAs) being higher than growth in capital base, Tier-1 and overall CAR declined to 9.8% (2017: 10.5%) and 12.3% (2017: 13.4%), respectively. Leverage ratio was also reported well above regulatory requirements at 5.8% vis-à-vis regulatory requirement of 3%. Net non-performing financing in relation to tier-1 capital compares favorably to peer banks. Going forward, buffer over regulatory capital requirements will be a function of increase in RWAs and growth in equity base. Commitment of sponsors in case equity injection is needed to maintain cushion over regulatory CAR provides support to the bank's capitalization assessment.

The Sukuk

Instrument: DIBPL is in the process of issuing a perpetual, unsecured, subordinated, non-cumulative and contingent convertible debt instruments amounting up to Rs. 3.3b (inclusive of green shoe option of Rs. 300m). The issue proceeds will contribute towards the bank's additional Tier-1 capital and will be utilized towards enhancement of the bank's business operations.

Priority: In terms of priority of claims, DIBPL's Tier-1 instrument will rank ahead of claims of ordinary shareholders but below the bank's senior creditors, including depositors and holders of Tier 2 Sukuk.

Non-performance risk: Tier-1 instruments are characterized by higher non-performance risk vis-à-vis Tier-2 instruments on account of issuer having full discretion on profit payments, coupon servicing from only profits for the year and conversion feature in the event of pre-specified trigger events in terms of regulatory requirements. Tier-1 instruments also include lock-in-clause stipulating that profit may not be paid if such payments will result in shortfall in MCR or CAR or increase any existing shortfall. While the regulatory framework may not consider a missed coupon payment as a default; the credit rating methodology employed by JCR-VIS would treat such missed payments as an event of default. Despite existence of full coupon discretion, exercising the feature is not considered likely in normal course of business as it will hamper future fund raising ability of the Bank.

Dubai Islamic Bank Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR billions)*

BALANCE SHEET	30-Sep-18	31-Dec-17	31-Dec-16
Total Investments	45.8	41.5	27.2
Islamic Financing & related assets	149.2	119.5	93.9
Total Assets	223.2	182.3	152.1
Borrowings	7.2	5.3	5.7
Deposits & other accounts	187.3	149.3	129.3
Subordinated Debt	4.0	4.0	0
Tier-1 Equity	15.9	14.7	11.8
Net Worth	16.9	15.1	12.1
INCOME STATEMENT	**30-Sep-18**	**31-Dec-17**	**31-Dec-16**
Net Mark-up Income	6.0	6.6	5.2
Net Provisioning	0.0	0.2	0.1
Non-Markup Income	1.5	1.9	1.6
Operating Expenses	4.4	5.7	5.3
Profit Before Tax	3.0	2.6	1.4
Profit After Tax	1.9	1.6	0.9
RATIO ANALYSIS	**30-Sep-18**	**31-Dec-17**	**31-Dec-16**
Market Share (Advances) (%)	2.0	1.9	1.7
Market Share (Deposits) (%)	1.44	1.2	1.2
Gross Infection (%)	1.7	1.9	2.5
Provisioning Coverage (%)	76.6	84.9	74.7
Net Infection (%)	0.5	0.4	0.7
Cost of deposits (%)	3.24	2.79	3.13
Net NPLs to Tier-1 Capital (%)	4.3	2.9	5.9
Capital Adequacy Ratio (C.A.R (%))	12.3	13.4	11.2
Markup Spreads (%)	4.22	4.25	3.77
Efficiency (%)	58.7	67.6	80.1
ROAA (%)	1.2	0.9	0.6
ROAE (%)	16.07	11.37	10.15
Liquid Assets to Deposits & Borrowings (%)	29.4	21.1	29.4

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 and Sukuk 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: Tier-2 Sukuk				
6/29/2018	A+	-	Stable	Reaffirmed
9/5/2017	A+	-	Stable	Final
6/22/2017	A+	-	Stable	Preliminary

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: Tier-2 Sukuk				
12/07/2018	A		Stable	Preliminary

Proposed Tier-1 Instrument Structure	Basel 3 compliant Tier-1 Sukuk of Rs. 3.3b. The Sukuk is Shariah compliant rated unsecured and sub-ordinated 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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