

## Dubai Islamic Bank Pakistan Limited

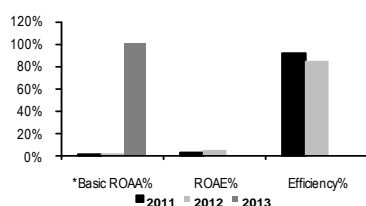
Chairman: Mr. Mohamed Saeed Ahmed Al Sharif; CEO: Mr. Junaid Ahmed

July 4, 2014

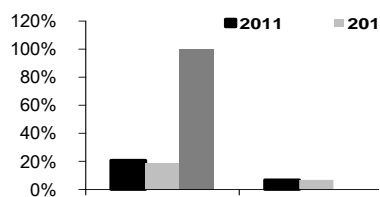
**Analyst:** Sobia Maqbool, CFA

Category	Latest	Previous
Entity	A+/A-1 Jun 30, '14	A/A-1 Jun 29, '13
Outlook	Stable Jun 30, '14	Positive Jun 29, '13

### Key Financial Trends



\* Based on recurring profit before provisions and taxation



	2012	2013	1Q14
Net Financings (Rs. in b)	26.3	35.5	37.0
Deposits (Rs. in b)	53.1	67.6	73.7
Market Share %	0.8	0.9	
Deposit Cost (%)	5.8	4.2	
Profit / (Loss) (Rs. in m)	345	137	228
Net Worth (Rs. in b)	6.9	7.0	10.4*
CAR (%)	19.09	14.59	22.02
Liquid Assets % Deposits & Borrowings	62.6	59.2	64.6
Net Infection (%)	6.8	4.0	3.9

\* Includes sub-ordinated debt

### Rating Rationale

As a wholly owned subsidiary of Dubai Islamic Bank PJSC, United Arab Emirates (DIB), Dubai Islamic Bank Pakistan Limited (DIBPL) has been operating in Pakistan for over 8 years. As per the arrangement allowed by the State Bank of Pakistan (SBP), DIB extended US \$31m sub-ordinated debt to DIBPL, which has been placed with SBP in a non-earning foreign currency account. Following this, Capital Adequacy Ratio stands enhanced at 22.02% at end-Mar'14. Over the next three years, the bank plans to pursue aggressive growth in financing portfolio, increasing it by more than two and a half times from current levels and expects to generate sufficient capital internally to meet two-thirds of the capital requirement through internal sources while the remaining may be raised through public offering. Any shortfall in meeting the MCR by the stipulated time shall be met by conversion of required amount of foreign currency deposit placed with SBP into local currency while the remaining will be repatriated to the sponsor at the end of three-year term.

In addition to creating room for growth in overall risk weighted assets, a larger capital base has increased the bank's capacity for per party exposures. Overall risk appetite of the bank may be slightly enhanced without necessarily compromising on quality of credits, as the bank is looking to tap into mid-size corporate & commercial entities, having established track record, in order to manage overall yield on portfolio basis. This may also be necessitated in context of the growth targets as the universe of top-tier clients may be fairly restricted. Portfolio quality indicators have depicted improvement in 2013, with net infection declining to 4.0% (FY12: 6.8%). Net exposure against a single client represents almost 35% of the un-provided non-performing financings (NPFs). Materialization of restructuring proceedings against the said client would significantly reduce the bank's future provisioning requirements against existing NPFs. Over time, a shift in portfolio mix is projected; consumer portfolio which currently comprises about one-third of total financings is projected to decline to under one-fourth of the portfolio. Auto financing currently comprises one-fifth of the bank's entire financing portfolio. Main thrust in consumer segment is going to remain on auto financing while mortgage financing will be undertaken on a very selective basis. This strategy is driven by the ease of re-possession of vehicles while court proceedings in case of mortgages prolong for several years. Credit cards are proposed to be launched by the bank in the on-going year in addition to other initiatives on the consumer asset side.

Liquidity levels have remained comfortable throughout the year; liquid assets comprised 59% of total deposits & borrowings at year-end (FY12: 63%). There was a slight increase in concentration levels, with top 10 deposits comprising 8.4% of total deposits (FY12: 7.5%). Continuing expansion in foot print will facilitate in realization of the bank's objectives to achieve broad based growth in deposits.

The bank generates deposits under various modes; DIBPL presently has a single common pool for all remunerative deposits. The shareholders also contribute funds to this pool. Profit rate return earned on the pool was 9.69% in FY13; profit rate return distributed to remunerative deposits was 6.24% for the year. After taking into account the impact of current account deposits, the cost of deposits of the bank was realized significantly lower at 4.2% in FY13 vis-à-vis 5.8% in the preceding year. The bank's cost of deposits is lowest amongst all Islamic banks. Net profit reported by the bank was Rs. 136.9m in FY13, much lower than projections. Efficiency indicator remains weak at 85.6%; overheads are also high at 4.5%. The bank plans to pursue growth in earnings to rationalize its overhead costs.

A sound corporate and Shari'ah governance framework is in place at DIBPL. The management team of DIBPL is lead by Mr. Junaid Ahmed Sheikh Sherfuddin, who has held the office of CEO for the last four years. There have been several changes at the senior management level in recent period; stability within the core management team is considered essential for implementing the bank's strategic objectives. Various measures have been taken to implement self-regulation; these include a sound IT platform, independent internal audit function and tools to manage various sources of risks.

### Overview of the Institution

DIBPL, a wholly owned subsidiary of DIB, has been incorporated in Pakistan as a public limited bank and commenced operations on March 28, 2006. 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 operated with a network of 125 branches and 25 branchless banking booths as at end-Dec 2013. Financial statements for FY13 were audited by M/s A.F. Ferguson & Co. **JCR-VIS**

## JCR-VIS Credit Rating Company Limited

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

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: ENTITY</u>				
30-Jun-14	A+	Stable	A-1	Upgrade
02-Jul-13	A	Positive	A-1	Reaffirmed
03-Jul-12	A	Positive	A-1	Maintained
30-Jun-11	A	Stable	A-1	Reaffirmed
25-Jun-10	A	Stable	A-1	Reaffirmed
28-Jan-10	A	Stable	A-1	Upgrade