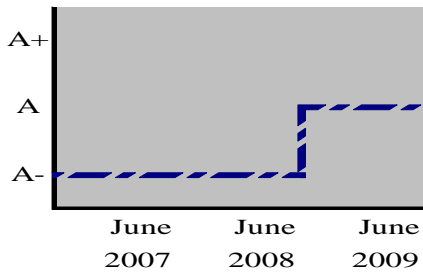


**RATINGS (JUNE 2009)**

**BANKISLMI PAKISTAN LIMITED (BIPL)**

Entity	New	Previous
Long Term	A	A-
Short Term	A1	A2



**FINANCIAL DATA**

PKR (mln)

	Mar-09*	Dec-08	Dec-07
Total Assets	22,935	19,088	14,448
Equity	5,097	5,181	3,836
Net (Loss)	(85)	(53)	(37)
Equity / Total Assets (%)	22.2	27.1	26.6
SBP CAR (%)	29.1	39.8	37.9

\* Un-audited

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**RATING RATIONALE AND KEY RATING DRIVERS**

■ The ratings reflect BIPL’s significant advancement towards establishing itself as an active player in the emerging Islamic banking industry. The bank, in a short span of time, has established an effective operating platform, supplemented by requisite technological infrastructure and risk management systems. At the same time, the bank’s expanded outreach is expected to help maintain diversification in its deposit base and finances portfolio. However, given weakened economic fundamentals, BIPL may take a relatively long period to achieve the envisaged profitability. Meanwhile, the ratings also take into account the sound financial standing of sponsoring groups.

■ The ratings are dependent on success of the management in effectively implementing its business plan to achieve the desired results. The efficacy of the risk management framework especially in terms of maintaining good asset quality, which is currently under pressure across the industry, is highly important. At the same time, the cohesiveness of the key management team would remain critical for the bank’s ratings

**ASSESSMENT**

■ BIPL, capitalizing on its expanded outreach, experienced substantial growth in finances in 2008. This enabled BIPL to register a significant increase in its net interest revenue. Other operating income witnessed an upsurge on account of higher fee and commission. Meanwhile, there was a sizeable increase in personnel and other expenses, owing to the ongoing network expansion. Moreover, BIPL made a net provision of PKR 130mln, due to sizeable increase in the classified portfolio. This resulted in doubling the pre-tax loss of the bank. The performance trend remained the same in 1Q09 with a slight addition in NPLs.

■ Going forward, BIPL intends to leverage its expanded outreach to enhance both its deposit base and finances portfolio. Although the bank has plans to penetrate the retail segment, no significant lending is expected over the near-term, owing to currently weak credit environment. BIPL would continue with its recent strategy of focusing the corporate segment, though cautiously here as well. The bank, with a view to reduce its cost of funds, plans to focus more on demand deposits. BIPL, to augment further its retail franchise, has entered into agreements with different organizations to launch new products and services. Meanwhile, BIPL, with surplus liquidity and support of strong sponsors, eyes acquisition of banks as a strategy to achieve sizeable growth. These initiatives exhibit clarity of direction but the extent to which they materialize remains to be seen.

■ BIPL’s core banking software is *iMal*, developed by Path Solutions, a software house in the Middle East. Based on *shariah* stipulations and compliant with Basel II, *iMal* provides an integrated solution for all operational requirements. The implementation of the software is to be completed by end-09.

■ BIPL’s NPLs, as a proportion of gross advances, experienced significant rise (Mar-09: 3.8%, Dec-08: 2.8%). While the bank has low top twenty credit concentration, it has relatively high exposure to some sectors. With current weak economy BIPL may experience an increase, though limited, in its classified portfolio. Meanwhile, an internal obligor risk rating module has been installed to provide more objectivity to the credit appraisal system.

■ BIPL, due to initial stage of operations, maintains ample liquidity and has a very low deposit concentration, which clearly stands out among close peers.

■ The bank’s investment portfolio is modest in size (end-08: PKR 207mln) – mainly dominated by strategic investment (PKR 191mln). The bank recently expanded its exposure to the sukuk market. There is a revaluation surplus, though slight, available on this investment (PKR 16mln).

■ BIPL, mainly due to un-utilized resources, has a relatively high level of capitalization (CAR), which offers significant room for credit expansion. However, with restricted internal generation, the bank would remain dependent on its sponsors’ support for meeting increasing absolute capital requirements as prescribed by SBP.

**PROFILE**

■ BankIslami Pakistan Limited (BIPL), a scheduled Islamic bank, commenced operations in Apr06 and is listed on the Karachi Stock Exchange. BIPL is a joint venture among three financially sound business groups, holding a cumulative of ~ 65% stake, namely DCD Group UK, Dubai Bank PSJC, and Jahangir Siddiqui & Company Limited. With its head-office in Karachi, the bank currently has a network of 102 branches (end-07: 36)

■ The seven member BoD comprises representatives of sponsoring groups. The CEO, Mr Hasan A. Bilgrami, possesses extensive experience with leading financial institutions. He has played an active role in the development of the Islamic banking policies and products in the country.