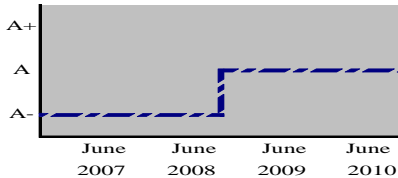


RATINGS (JUNE 2010)
BANKISLMI PAKISTAN LIMITED (BIPL)

	New	Previous
Entity		
Long Term	A	A
Short Term	A1	A1
Outlook	Negative	–


FINANCIAL DATA

PKR (mln)

	Mar-10*	Dec-09	Dec-08
Total Assets	35,823	34,287	19,088
Equity	4,707	4,702	5,181
Net (Loss)	3.8	(479)	(53)
Equity / Total Assets (%)	13.1	13.7	27.1
SBP CAR	20.0	20.4	39.8

* Based on un-audited accounts

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RATING RATIONALE AND KEY RATING DRIVERS

■ The ratings reflect BIPL's sustained progression towards establishing itself as an active player in the emerging Islamic banking industry. The ratings incorporate the establishment of an effective operating platform, supplemented by requisite technological infrastructure and risk management systems. The bank's improving franchise value alongwith the extended outreach is expected to help in sustaining growth in both deposit base and finances portfolio.

■ The outlook on the ratings is negative given the delay in meeting the regulatory minimum capital requirement. The bank is exploring different avenues to achieve compliance, the timely materialization of which remain critical for the ratings. The efficacy of the risk management framework especially in terms of maintaining good asset quality is highly important. Meanwhile, profitability of the bank's core operations to avoid further equity corrosion remains crucial for the ratings.

ASSESSMENT

■ BIPL witnessed a significant growth in the finances portfolio in 2009. The network expansion contributed significantly towards the deployment of advances. Diminishing musharaka was the main driver of growth (35%), followed by murabaha financing (31%) and ijarah financing (11%). With more than doubling of the bank's deposit base, BIPL's finances-to-deposit ratio experienced a sizeable decrease (2009: 60%, 2008: 84%). The individual concentration in the loan book is significantly high, with top 20 funded exposures constituting around 53% (end-08: 28%), though mostly with the reputed entities of the country. However, the bank's top twenty deposit concentration remained low (2009: 12%).

■ The bank registered a significant increase in its profit revenue. The cost of funds, nonetheless, grew by a larger margin, attributable to the bank's initial high reliance on fixed deposits during 2009. Meanwhile, decline in fee income as a result of depressed investment banking was cushioned by substantial upsurge in income from dealing in foreign currencies. The bank's operating expenses, lower than peers, experienced rise inline with expansion in branch network and human resource base. This resulted in substantial pre-provisioning loss for the bank. Despite sizeable escalation in NPLs, the impact of provisioning on the bank's bottomline was limited, as BIPL availed FSV benefit upto PKR 124mln. During 1Q10, the bank's performance has improved as recent finances have started yielding high spreads.

■ Going forward, the bank, leveraging its expanded outreach, intends to enhance significantly both its deposit base and finances portfolio. While achieving finances-to-deposit ratio of 70% by end-10, the bank intends to take major exposure in corporate and commercial segments with limited interest in consumer financing. BIPL is in the process of launching a commodity financial product, to tap a strong avenue of growth. Meanwhile, the bank is exploring merger and/or loan book acquisition options. Although these plans reflect clarity of direction, the extent of success and the related timeline remains to be seen.

■ The bank witnessed a substantial infection in its finances portfolio during 2009, primarily owing to the suppressed economic fundamentals of the country. The NPLs, as a proportion of gross finances, rose to around 5.2% by end-09 (08: 2.8%). However, with the management's enhanced efforts towards recoveries, the rising trend was curtailed in 1Q10 as the ratio was decreased to 3.7%. Going forward probability of new NPLs may not be ruled out altogether.

■ The bank's investment portfolio observed a substantial increase on a YoY basis (09: PKR 4,315mln, 08: PKR 1,132mln), dominated by GoP backed sukuks (62%). The bank has strategic investment of PKR 191mln in the wholly owned subsidiary.

■ BIPL despite of unutilized resources is adequately capitalized at a CAR of 19.6% at end-Mar10. However, the bank is currently not compliant with the MCR for 2009 of PKR 6bln set by SBP. The bank is dependent on its sponsor's support for meeting the MCR, if other efforts, mainly a merger, do not materialize.

PROFILE

■ BIPL, a scheduled Islamic bank, commenced operations in Apr06 and is listed on the Karachi Stock Exchange. The bank 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 (JSCL).

■ DCD, a UK based Group having stakes in diversified businesses, has participated in the establishment of various Islamic Banks in different countries. Dubai Bank PSJC, converted into an Islamic Bank, is 70% owned by Dubai Holdings, while the remaining 30% is with Emmar Properties. Dubai Holdings is the investment arm of the government of Dubai. JSCL is the holding company of JS group – having presence in all important dimensions of the financial sector. JS group also has sizeable stakes in industrial, information, property, transport and energy sectors.

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