



The Pakistan Credit Rating Agency Limited

BANK ISLAMI PAKISTAN LIMITED RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-Term	A+	A+
Short-Term	A1	A1
Action	RW	RW
Outlook	Developing	Developing

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DECEMBER 2017

Profile & Ownership

- BankIslami Pakistan Limited (BIPL), established in 2004, is the first Islamic bank receiving Islamic Banking license to operate in the country.
- BIPL is listed on Pakistan Stock exchange; the bank offers a wide range of Shariah compliant products and services.
- The bank operates through a network of 322 branches (end-Dec16: 321).
- Post right issue in May 2015, major shareholders of the bank is JSCL (21%), Mr. Ali Hussain and SAJ Capital (~21%), Randeree Family (~20%) and Dubai Bank (~14%).
- In May 2015, BIPL acquired defunct KASB Bank Limited.

Governance

- The board; reconstituted in CY17 comprises eight-members including the CEO and two independent members.
- Mr. Ali Hussain, MD SAJ Capital Limited, is the Chairman of the Board.
- BIPL's shariah board comprises three leading Islamic scholars of the country, namely (i) Mufti Irshad Ahmad Aijaz, ii) Mufti Muhammad Husain, and iii) Mufti Javed Ahmed.

Management

- Mr. Hasan A Bilgrami, the President of the bank has been instrumental in the growth of the bank. He has been associated with the bank since its inception.
- Management team comprises seasoned professionals.

Risk Management

- During 9MCY17, BIPL's net financing, 55% of the total assets (CY16: 43%), witnessed a 29% YoY growth.
- Owing to addition of significant non performing book of defunct KASB, non-performing financing and advances increased, (9MCY17: PKR 16.3bln; CY16: PKR 14.5bln; CY15: PKR15.7bln; CY14: PKR1bln), however, majority (70%) of these loans are provided.
- Advances' concentration in terms of top-20 decreased to 48% (CY16: 76%; CY15: 58%; CY14: 18%).

Performance

- During 9MCY17, the bank posted a marginal increase in its weighted average spreads (9MCY17: 3.3%; CY16: 3.7%; CY15: 3.6%; CY14: 5%), owing to low cost of funds and increased volume of finances.
- Beside a striking increase in other income, due to increased operational costs bank recorded a pre-provisioning loss of PKR 184mln (CY16: PKR -1,186mln; 1HCY16: PKR -523mln; CY15: PKR -903mln; CY14: PKR 487mln).
- Magnitude of provisioning reversals halted over the last two quarters impacting the bank's bottom-line to rest at profit of PKR 107mln (CY16: PKR 452mln; CY15: PKR -196mln; CY14: PKR 314mln).
- Going forward, the bank aims to considerably expand its lending portfolio (focusing Auto and Mortgage financing) funded through low cost deposits.
- Investments in new types of products including REIT etc. would be a competitive edge over others, yet implementation is yet to be seen.

Capital and Funding

- The bank would maintain focus on low cost deposits. The share of CASA in the total deposits stood at 75% at end-Sep17 (CY16: 70%; CY15: 67%; 1HCY17: 71%; CY14: 61%), which bodes well for cost rationalization.
- Concentration in top 20 deposits improved (9MCY17: 22%; CY16: 27%; CY15: 30%, CY14: 39%); although to manage earnings retention of bank's top deposit is critical at least in the medium term.
- The bank's liquidity position evident by Liquid assets to Deposits & Borrowing ratio (9MCY17: 29%; CY16: 33%; CY15: 27%; CY14: 40%) is decreasing YoY basis.
- BIPL is MCR compliant with a CAR of 13.35% at end 9MCY17.

RATING RATIONALE

The ratings reflect BankIslami's established position in the country's Islamic banking space. With the acquisition of defunct KASB Bank in May 2015, BankIslami's system share in deposits improved (6MCY17: 1.2%). Post-acquisition, BIPL had faced significant withdrawal of deposits, owing to removal of moratorium imposed on defunct KASB Bank. However, same was managed successfully. Moreover, this acquisition resulted in i) increase in footprint, ii) deposit base, and iii) strategic investment book. The Bank also inherited carried forward tax losses and a sizeable portfolio of non-performing assets; that has its own challenges. To compensate the Bank for negative net worth of the defunct KASB Bank, it was also provided low cost subordinated loan facility from SBP; supporting Bank's revenue and CAR. Although BankIslami has enhanced deposit base, yet risk of withdrawal from key depositor acquired through amalgamation (representing 12% in total deposit) remains. Given time required to fully absorb defunct KASB Bank related costs, operational performance is yet to stabilize. Meanwhile, recoveries from non-performing loans is essential. The management, while synergizing on enhanced outreach intends to pursue growth.

KEY RATING DRIVERS

The ratings require sustainable improvement in BankIslami's operational performance, in turn, maintaining positive trend in bottom-line. At the same time maintaining a strong capital adequacy while pursuing growth is important. Any downward spiral in profits, or incidence of non-performing assets with consequent impact on equity may negatively impact the ratings. Meanwhile, ratings remain on Watch to monitor profitability from core operations and manage any unforeseen issues related to defunct KASB Bank.



BALANCE SHEET	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9MCY17	CY16	CY15	CY14
<i>PKR mln</i>				
Earning Assets				
Advances	100,671	75,415	67,215	40,636
Debt Instruments	1,221	1,018	1,100	1,331
Total Finances	101,891	76,433	68,315	41,968
Investments	39,981	45,300	34,786	29,053
Others	13,285	27,219	39,824	18,144
	155,158	148,951	142,925	89,165
Non Earning Assets				
Non-Earning Cash	11,031	8,924	10,817	7,095
Deferred Tax	6,186	5,918	6,591	-
Net Non-Performing Finances	4,629	2,402	1,579	731
Fixed Assets & Others	12,701	13,514	12,319	4,994
	34,546	30,758	31,306	12,820
TOTAL ASSETS	189,704	179,709	174,231	101,985
Interest Bearing Liabilities				
Deposits	164,906	154,400	153,058	90,331
Borrowings	5,476	6,066	3,198	561
	170,382	160,466	156,256	90,892
Non Interest Bearing Liabilities				
	7,220	7,936	6,789	4,225
TOTAL LIABILITIES	177,603	168,402	163,044	95,117
EQUITY (including revaluation surplus)	12,102	12,445	11,186	6,867
TOTAL LIABILITIES & EQUITY	189,704	180,846	174,231	101,984
INCOME STATEMENT				
	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9MCY17	CY16	CY15	CY14
Profit / Return Earned	7,655	10,128	8,834	7,812
Return Expensed	(3,899)	(5,791)	(5,119)	(4,459)
Net Revenue	3,756	4,336	3,715	3,353
Other Income	641	638	570	632
Total Revenue	4,397	4,974	4,285	3,985
Other Expenses	(4,581)	(6,160)	(5,188)	(3,498)
Pre-provision operating profit	(184)	(1,186)	(903)	487
Provisions	370	2,030	631	(17)
Pre-tax profit	185	844	(272)	470
Taxes	(79)	(391)	76	(156)
Net Income	107	452	(196)	314
RATIO ANALYSIS				
	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9MCY17	CY16	CY15	CY14
Performance				
ROE	1.3%	4.2%	-2.4%	5.3%
Cost-to-Total Net Revenue	105.3%	126.7%	122.9%	88.7%
Provision Expense / Pre Provision Profit	200.5%	171.1%	69.8%	3.6%
Capital Adequacy				
Equity/Total Assets	5.8%	6.0%	5.9%	6.1%
Capital Adequacy Ratio as per SBP	13.3%	13.4%	12.3%	17.0%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	28.9%	32.0%	27.1%	39.6%
Advances / Deposits	63.9%	50.4%	44.9%	45.5%
CASA deposits / Total Customer Deposits	74.8%	70.2%	67.1%	60.6%
Intermediation Efficiency				
Asset Yield	6.7%	6.7%	7.6%	9.4%
Cost of Funds	3.1%	3.6%	4.1%	5.3%
Spread	3.6%	3.1%	3.5%	4.1%
Outreach				
Branches	322	321	317	213

CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	
A-		
BBB+	Good credit quality. Currently a low expectation of credit risk.	
BBB	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	
BBB-		
BB+	Moderate risk. Possibility of credit risk developing.	
BB	There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	
BB-		
B+	High credit risk.	
B	A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	
B-		
CCC	Very high credit risk. Substantial credit risk	
CC	“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.	
C		
D	Obligations are currently in default.	

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

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Name of Rated Entity
Sector
Type of Relationship

BankIslami Pakistan Limited
Banking
Solicited

Purpose of the Rating

Regulatory Requirement
Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
13-Dec-17	A+	A1	Developing	RW
22-Jun-17	A+	A1	Developing	RW
25-Oct-16	A+	A1	Rating Watch/Developing	Maintain
6-May-16	A+	A1	Developing	Rating Watch
08-May-15	A+	A1	Rating Watch	Maintain
17-Apr-15	A+	A1	Stable	Upgrade

Applicable Criteria and Related Research

Banking Rating Methodology
Sector Study Commercial Banks | Jun17

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Rating Team Statement

Rating Procedure

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is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

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However, actual transition of rating may not follow the pattern observed in the past.