



The Pakistan Credit Rating Agency Limited

## Rating Report

### BankIslami Pakistan Limited | Modaraba Sukuk

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2021	A-	-	Stable	Maintain	-
30-Jun-2020	A-	-	Stable	Initial	-
08-Oct-2019	A-	-	Stable	Maintain	-
30-Apr-2019	A-	-	Stable	Preliminary	YES

#### Rating Rationale and Key Rating Drivers

The ratings reflect BankIslami's Improving risk profile. The Bank's profitability enhanced attributable to improved net markup income despite attrition in advances and sustained non-markup income. The Bank was able to achieve good operating profits; the trend should continue. The Bank's customer deposit recorded significant addition tilted towards current deposits. Hence, upward trend in CASA recorded (end-Dec20: 62.5%, end-Dec19: 58.5%). Key positions are headed by experienced individuals. The focus is on risk management, IT infrastructure, workforce strengthening and customer facilitation which is assisting the bank in achieving operational efficiency. The Bank's CAR is at a comfortable level of 16.1% in CY20. The relaxations related to CAR given by the central bank will be withdrawn in CY21, 60% amount have been deducted from CET I capital in CY20. The positive outlook captures improved profitability, enhanced liquidity, and a sizable increase in funding base driven by deposits largely sustained infection and better CAR. The ratings capture the need to sustain a growth trend in profitability and deposits. Successful execution of the business strategy, while improving the efficacy of the risk management framework to improve asset quality will remain vital. Going forward, the Bank will continue with its pro-business and pro-tech strategy by placing emphasis on the escalation in trade business, enhancement in low-cost CASA deposits, widening its corporate and consumer financing book. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures are taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge.

The bank's ability to raise its capital base in order to pursue its growth plan is important. In this regard, BIPL made a right issue of PKR 1bln along with the issuance of ADT-1 Sukuk of Rs. 2 billion.

#### Disclosure

<b>Name of Rated Entity</b>	BankIslami Pakistan Limited   Modaraba Sukuk
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   FI (Jun-20),Methodology   DI Basel III(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Commercial Bank(Jun-21)
<b>Rating Analysts</b>	Timnat Thomas   timnat.thomas@pacra.com   +92-42-35869504

## Issuer Profile

**Profile** BankIslami Pakistan Limited (BIPL), incorporated in Oct-04, was the first bank in Pakistan to receive the Islamic Banking license, in Mar-05, under the Islamic Banking policy of 2003. After being declared a scheduled Islamic bank by the State Bank of Pakistan in Mar-05, the bank commenced its operations on April 07, 2006. BankIslami is operating as a Scheduled Islamic Commercial Bank. It's a small-sized Islamic bank with a network of 343 branches.

**Ownership** BIPL has four prominent sponsors namely Mr. Ali Hussain and SAJ Capital Management Limited, JS Group (through Jahangir Siddiqui & Company Limited (JSCL), Emirates NBD (through Dubai Bank PJSC), and Randeree family. All these have a collective holding of ~73% in the bank and predominantly direct the affairs of the BIPL's board. The business acumen of sponsors is considered strong as sponsors have diversified interests and long association with the markets.

**Governance** BIPL's eight-member board of directors (BoD) including the CEO constitutes representatives of sponsoring groups. Currently, four are independent directors, three are non-executive and one Executive director (CEO - BankIslami). BIPL's shariah board comprises three leading Islamic scholars of the country: (i) Mufti Irshad Ahmad Aijaz, (ii) Mufti Muhammad Husain, and (iii) Mufti Javed Ahmed. EY Ford Rhodes Chartered Accountants the external auditor are SBP panel member, expressed an unqualified opinion for the financial statements for the year ending December 31st, 2020. KPMG Taseer Hadi & Co., Chartered Accountants, is appointed as auditors for the year ending December 31, 2021.

**Management** The bank has eight committees at the management level: (i) Business Strategy & Review Committee (BSRC), (ii) Compliance & Controls Committee (CCM), (iii) Information Technology Steering Committee (ITSC), (iv) Asset and Liability Committee (ALCO), (v) Management Credit Committee (MCC), (vi) Service Excellence Committee (SEC), (vii) Procurement & Disposal Committee (PDC) & (viii) Disciplinary Action Committee (DAC). Mr. Syed Amir Ali has joined the bank as Deputy CEO on Apr-18. He has taken up the position of 'President & CEO' in Oct-18. He is a Chartered Accountant & CFA Charter holder by qualification, carrying with himself more than one decade of experience mainly of Meezan Bank. The management has selected a comprehensive Islamic Banking application that has inbuilt Shariah compliance features – iMal, a core banking software. Internal Risk Rating Module is being used by the bank. The module supports the bank in its Obligor Risk Rating (ORR) process by adding more objectivity to the credit appraisal process.

**Business Risk** The indicators of the banking sector reflected a mixed trend where the economy is recovering from the effects of the COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to the COVID-19 outbreak, the banking sector managed to grow at a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid the COVID-19 pandemic outbreak. The policy measures rolled out by the SBP enabled the sector to enhance profitability, improve resilience and limit the credit risk. With the completion of the deferment period allowed, the aftermath is yet to be comprehended by the industry. BIPL - a small tier bank and was able to maintain its deposit system share of (Deposits: CY20: 1.6%; CY19: 1.5%), during recent years. During CY20, the bank was able to show growth in terms of total deposits by 21%. Going forward, the Bank will continue with its pro-business and pro-tech strategy by placing emphasis on the escalation in trade business, enhancement in low-cost CASA deposits, widening its corporate and consumer financing book, increasing its digital penetration through innovation and up-gradation of technology to improve processes and service quality.

**Financial Risk** During period CY20, the bank earned a mark-up of PKR 25.74bln (CY19: PKR 23.65bln). The increase of 8.8% YoY is due to enhance markup earned on advances and new investments in sovereign guaranteed papers. The bank recorded NIMR at PKR 12.49bln (CY19: PKR 10.79bln), up by 15.8% YoY. While in 3MCY21, the NIMR of the bank stood at PKR 2.5bln. Despite net provisions of PKR 2.6bln, pre-tax profit stood at PKR 2.7bln. Furthermore, tax expense increased to PKR 1.06bln (CY19: PKR 0.744bln). Hence, profit after tax improved and clocked at PKR 1.70bln (CY19: PKR 1.09bln). BIPL's investment portfolio witnessed an increase to PKR 87.8bln (end-Dec19: PKR 46.9bln). Portfolio increased mainly due to increase in Government Securities of PKR 44.5bln. The investment composition remained tilted towards government securities (end- Dec: 98%) excluding debt instruments. As at end-Dec20, BIPL's customer deposits increased to PKR 264bln (end-Dec19: PKR 218bln), up 21.1% owing to the greater increase witnessed in current deposits. At end-Dec20, CAR is largely maintained at 16.1% with Tier I at 12.3%. To support Tier-I capital, Bank issued Additional Tier-I Sukuk of PKR 2.0bln on 21st April 2020.

## Instrument Rating Considerations

**About The Instrument** BIPL issued fully paid up, rated, listed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible listed modaraba Sukuk certificates ("Sukuk" or the "Issue" or "Instruments"). The issue amounts to PKR 2bln. The profit rate is 3 Month KIBOR + 2.75%. The profit is being paid monthly in arrears on the outstanding principal amount on a non-cumulative basis. The amount raised is part of BIPL's Additional Tier 1 Capital for capital adequacy ratio as per guidelines set by SBP. The funds are being utilized in the bank's financing and investing activities. BIPL may exercise a call option on the Sukuk on or after five years from the issuance date.

**Relative Seniority/Subordination Of Instrument** The Sukuk holders are a part of the general pool. The claims of the investors will rank a) superior to the claims of ordinary shareholders in case of going concern as well as a gone concern (in case the Sukuk are not already converted into the common share of the Bank), and b) pari-passu without preference amongst Sukuk holders. The Sukuk is also subject to the lock-in clause i.e. the profit payment to the Sukuk holders will be subject to the condition that any such payment should not result in the non-compliance with the applicable regulatory requirement of MCR, CAR and leverage ratio (LR) as determined by SBP from time to time. Any inability to exercise the lock-in clause or non-cumulative feature will subject these Sukuk certificates to mandatory conversion into common shares at the discretion of SBP.

**Credit Enhancement** The Instrument is unsecured.



PKR mln

**BankIslami Pakistan Limited**  
**Listed Public Limited**

Mar-21	Dec-20	Dec-19	Dec-18
3M	12M	12M	12M

**A BALANCE SHEET**

1 Total Finances - net	156,324	134,988	137,361	123,942
2 Investments	101,849	87,785	46,890	28,788
3 Other Earning Assets	26,674	53,948	44,789	19,006
4 Non-Earning Assets	54,887	56,947	51,338	39,334
5 Non-Performing Finances-net	3,821	2,629	2,718	4,673
<b>Total Assets</b>	<b>343,555</b>	<b>336,297</b>	<b>283,096</b>	<b>215,743</b>
6 Deposits	286,743	282,016	228,827	184,693
7 Borrowings	17,812	18,128	16,804	7,820
8 Other Liabilities (Non-Interest Bearing)	18,564	16,259	17,770	8,716
<b>Total Liabilities</b>	<b>323,118</b>	<b>316,402</b>	<b>263,400</b>	<b>201,228</b>
<b>Equity</b>	<b>20,438</b>	<b>19,895</b>	<b>19,696</b>	<b>14,515</b>

**B INCOME STATEMENT**

1 Mark Up Earned	5,339	25,744	23,650	12,204
2 Mark Up Expensed	(2,871)	(13,255)	(12,860)	(6,170)
3 Non Mark Up Income	416	1,635	1,633	1,264
<b>Total Income</b>	<b>2,883</b>	<b>14,124</b>	<b>12,424</b>	<b>7,298</b>
4 Non-Mark Up Expenses	(2,199)	(8,764)	(7,794)	(6,858)
5 Provisions/Write offs/Reversals	(47)	(2,601)	(2,799)	(36)
<b>Pre-Tax Profit</b>	<b>637</b>	<b>2,759</b>	<b>1,831</b>	<b>404</b>
6 Taxes	(247)	(1,056)	(744)	(190)
<b>Profit After Tax</b>	<b>390</b>	<b>1,703</b>	<b>1,087</b>	<b>214</b>

**C RATIO ANALYSIS**

**1 Performance**

Net Mark Up Income / Avg. Assets	2.9%	4.0%	4.3%	2.8%
Non-Mark Up Expenses / Total Income	76.3%	62.0%	62.7%	94.0%
ROE	7.7%	8.6%	6.4%	1.5%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	5.9%	5.9%	7.0%	6.7%
Capital Adequacy Ratio	15.4%	16.1%	14.9%	15.1%

**3 Funding & Liquidity**

Liquid Assets / (Deposits + Borrowings Net of Repo)	42.0%	39.8%	24.6%	21.0%
(Advances + Net Non-Performing Advances) / Deposits	53.3%	46.2%	57.6%	64.2%
CA Deposits / Deposits	33.0%	32.3%	29.6%	32.1%
SA Deposits / Deposits	30.8%	30.3%	28.9%	36.7%

**4 Credit Risk**

Non-Performing Advances / Gross Advances	11.2%	12.1%	10.7%	12.0%
Non-Performing Finances-net / Equity	18.7%	13.2%	13.8%	32.2%

**Credit Rating**

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. 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+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. 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+	<b>Moderate risk.</b> Possibility of credit risk developing. 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	
BB-	
B+	
B	<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	<b>Very high credit risk.</b> Substantial credit risk “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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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## Regulatory and supplementary Disclosure

Nature of Instrument	Size of issue	Date of Issue	Years	Security	Quantum of security	Nature of Assets	Book value of Assets (PKR mln)	Trustee
Modaraba Sukuk - ADT I	2bln	Apr-20	Perpetual	Unsecured and subordinated to all other obligations of the bank.	N/A	N/A	N/A	Pak Brunei Investment Company Limited

### BankIslami Pakistan Limited / Modaraba Sukuk

Due Date Principle*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit Rate (6MK + 2.75%)	6M Kibor	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		

Redemption Schedule not applicable since its a perpetual Modaraba Sukuk whereby there is no fixed or final redemption date. Profit will be payable monthly in arrears, on a non-cumulative basis, on the outstanding Sukuk amount. The first such profit payment will fall due at the end of 1st calender month from the Issue Date and subsequently every month end thereafter.

The instrument carries a call option which may be exercised after Apr-25 (5 years), subject to approval of the SBP.