



The Pakistan Credit Rating Agency Limited

Rating Report

BankIslami Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Jun-2022	A+	A1	Positive	Maintain	-
24-Jun-2021	A+	A1	Positive	Maintain	-
30-Jun-2020	A+	A1	Stable	Maintain	-
08-Oct-2019	A+	A1	Stable	Maintain	-
30-Apr-2019	A+	A1	Stable	Maintain	Yes
27-Dec-2018	A+	A1	Stable	Maintain	Yes
22-Jun-2018	A+	A1	Stable	Maintain	-
13-Dec-2017	A+	A1	Developing	Maintain	-
22-Jun-2017	A+	A1	Developing	Maintain	-
25-Oct-2016	A+	A1	Rating Watch- Developing	Maintain	-

Rating Rationale and Key Rating Drivers

Assigned ratings incorporate BIPL's good capitalization, sustained market share (both in terms of advances as well as deposits). The Bank's net profitability enhanced attributable to reversal of provision whilst there was decline in net markup income due to the attrition in markup earned. The Bank was able to achieve good operating profits and sustained non markup income; trend should continue. The Bank's customer deposit recorded significant addition tilted towards current deposits. Hence, upward trend in CASA recorded (end-Dec21: 68.1%, end-Dec20: 62.7%). 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 14.2% in CY21. The positive outlook captures improved profitability, enhanced liquidity, and sizable increase in funding base driven by deposits, largely sustained infection and better CAR. Successful execution of the business strategy, while improving 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 towards escalation in trade business, enhancement in low-cost CASA deposits, widening its corporate and consumer financing book.

Pakistan's economy has gone through several varied phases in last two years due to the COVID19 pandemic. Banking sector continued to flourish with high profitability. Going forward, the macro-economic environment is beset with myriad challenges due to heightened interest rate, tightening of demand, rupee depreciation and higher infection. This has repercussions for the entire system including banking.

The Bank had a successful right issue of PKR 1bn in 2019 and ADT-1 of PKR 2bn in 2020. There were a total of 190 investors who participated in ADT-1 Sukuk as it is a listed instrument. The Bank is also in the process to issue a new ADT-1 Sukuk of PKR 1bn.

Disclosure

Name of Rated Entity	BankIslami Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Financial Institution Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Commercial Bank(Jun-22)
Rating Analysts	Iram Shahzadi iram.shahzadi@pacra.com +92-42-35869504



Profile

Structure 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. The bank, after being declared a scheduled Islamic bank by the State Bank of Pakistan in Mar-05, commenced its operations from April 07, 2006.

Background The bank has been following organic growth since its inception. Furthermore, on May 7th, 2015, BIPL acquired defunct bank "KASB Bank Limited" under "Scheme of amalgamation of defunct KASB Bank Limited with and into BankIslami Pakistan Limited under Section 47 of Banking Companies Ordinance, 1962".

Operations BankIslami is operating as a Scheduled Islamic Commercial Bank. It's a small-sized Islamic bank with a network of 341 branches as at March22.

Ownership

Ownership Structure BIPL has four prominent sponsors, namely Mr. Ali Hussain and SAJ Capital Management Limited, JS Group (through Jahangir Siddiqui & Company Limited (JSCL), Emirates NBD 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.

Stability BIPL ownership is backed by strong sponsors and has remained largely stable for many years. It is expected to remain the same in the foreseeable future.

Business Acumen The business acumen of sponsors is considered strong as sponsors have diversified interests and long association with the markets.

Financial Strength The ability to support in case of financial need is considered good.

Governance

Board Structure BIPL's eight-member board of directors (BoD) including 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 four leading Islamic scholars of the country, namely (i) Mufti Irshad Ahmad Aijaz, ii) Mufti Javed Ahmad, iii) Mufti Muhammad Husain, and iv) Mufti Syed Hussain Ahmad.

Members' Profile Mr. Ali Hussain, MD SAJ Capital Limited, is the Chairman of the Board, has 45 years of experience. All the other board members have different educational and work experience background.

Board Effectiveness The BoD exercises close monitoring of the management's policies and governs the bank's operations through its four committees namely i) Audit Committee, ii) Board Human Resource & Remuneration Committee, (iii) Risk Management Committee, (iv) IT Committee.

Financial Transparency During the year, KPMG Taseer Hadi & Co., Chartered Accountants the external auditor is an SBP panel member, expressed an unqualified opinion for the financial statements for the year ended December 31, 2021.

Management

Organizational Structure BIPL's organizational structure is divided into fourteen functional departments i) Distribution, ii) Corporate Banking, iii) Consumer, iv) Treasury/ FIs, v) Risk Management, vi) Product and Shariah Structuring, vii) Human Resource, viii) Legal, ix) Finance, x) Operations, xi) Security and Govt. Relations, xii) IT, xiii) Internal Audit and xiv) Compliance.

Management Team Mr. Syed Amir Ali has joined the bank as Deputy CEO in 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 experience mainly of Meezan Bank.

Effectiveness 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).

MIS The management has selected a comprehensive Islamic Banking application that has inbuilt Shariah compliance features – iMal, a core banking software, which has been developed by Path Solutions, a software house in the Middle East. In CY21, Azentio bought iMal licenses from Path Solution.

Risk Management Framework 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

Industry Dynamics Pakistan's economy has gone through several varied phases in last two years. It was deeply impacted by the magnitude of the COVID19 pandemic. The economic activity revived afterwards and Pakistan posted a GDP growth rate of ~4.0% in FY21 after a contraction in economy of -0.4% in FY20 (GDP growth figures were revised after base year was changed from FY05-06 to FY15-16). Banking sector continues to flourish with high profitability. Banking sector weightage is approximately ~25% of the KSE 100 index. Total banking assets posted growth of ~19% YoY whilst investments surged by 21% YoY to PKR ~14.4trln (end-Dec20: PKR ~11.9trln). Gross Advances of the sector recorded growth (23%) to stand at PKR ~10.9trln (end-Dec20: PKR ~8.8trln). Non-performing loans witnessed slight uptick of 4% to PKR ~860bln. Capital Adequacy Ratio stood at 16.7% (regulatory requirement of 11.5%). During CY21, banking sector deposits enhanced to PKR ~21.6trln (grew by ~17%). Hence, ADR rationalized to 47% (end-Dec20: ~45%). Net profitability of the sector recorded at PKR ~267bln (CY20: PKR ~244bln); up 9% YoY. However, growth of equity base of the sector recorded meagre uptick of 0.8% YoY attributable to handsome dividend payout.

Relative Position BIPL - a small tier bank was able to maintain its deposit system share of (Deposits: CY21: 1.6%; CY20: 1.6%), during recent years. During CY21, the bank was able to show growth in term of total deposits by 22%.

Revenues During CY21, the bank earned mark-up of PKR 23.24bln (CY20: PKR 25.7bln). The decrease of 9.7% YoY is due to decline in markup earned on advances. The bank recorded net markup income at PKR 10.93bln (CY20: PKR 12.49bln), down by 12.5% YoY. The bank's asset yield also decreased and stood at 7.5% (CY20: 10.2%). Cost of funds stood at 3.7% (CY20: 4.9%). Hence, Bank's spread declined (CY21: 3.8%; CY20: 5.4%). While in 3MCY22, net markup income of the bank stood at PKR 3.3bln.

Performance During CY21, Non markup income of the bank went up by 29.6% and recorded at PKR 2,119m (CY20: PKR 1,635m) on account of growth in fee and commission income. Profit before tax of the Bank increased by 23.1%, mainly because of the reversal of provisions. While in 1QCY22, profit after tax of the bank improved and clocked at PKR 522m (3MCY21: PKR 390m).

Sustainability Going forward, the Bank remains committed towards achieving sustainable growth in its balance sheet, profitability and customer base through aggressive marketing, branch expansion, process improvement by leveraging technology, expanding its digital footprint, garnering trade business, and introduction of customer centric and competitive Shariah compliant products.

Financial Risk

Credit Risk During CY21, gross advances excluding NPLs recorded impressive growth by 40% and registered at PKR 179.3bln (1QCY22: PKR 194.5bln; CY20: PKR 127.8bln). At end Dec21, the NPLs of the Bank slightly decreased by 2.7% (CY21: PKR 17.1bln; CY20: PKR 17.6bln). Credit risk over advances witnessed decrease to 66.0% at end-Dec21 (end-Dec20: 84.5%).

Market Risk BIPL's investment portfolio witnessed increase to PKR 117.6bln (end Mar22: PKR 120.6bln; end-Dec20: PKR 87.8bln). Portfolio increased mainly due to increase in Federal Government Securities of PKR 83.6bln (end-Dec20: PKR 54.8bln). The investment composition remained tilted towards government securities (end-Dec: 98.7%) excluding debt instruments.

Liquidity And Funding Deposits & Borrowing ratio (end-Dec21: 38.9%; end-Dec20: 39.8%). BIPL's deposits grew by 22% as at Dec 21 outpacing the industry growth of 17.3%. Growth in deposits during CY21 was largely due to aggressive strategy followed by the Bank to increase its Current Account (CA) base. CA Deposit of the Bank went up by 43%. Furthermore, as at end-Mar22, CA and SA ratio stood at 39.4% (CY21: 38.4%) and 30.0% (29.7%) respectively.

Capitalization The equity base of the bank enhanced to PKR 22.5bln (CY20: PKR 19.8bln) primarily owing to healthy profitability during last few years. At end-Dec21, CAR is largely maintained at 14.15% with Tier I at 10.84%. To support Tier-I capital, Bank issued Additional Tier-I Sukuk of PKR 2.0bln on 21st April 2020. While in 3MCY22, CAR of the bank stood at 14.17%.



PKR mln

BankIslami Pakistan Limited
Listed Public Limited

Mar-22	Dec-21	Dec-20	Dec-19
3M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	201,613	186,246	134,988	137,361
2 Investments	119,993	117,617	87,785	46,890
3 Other Earning Assets	29,411	38,637	53,948	44,789
4 Non-Earning Assets	56,322	63,738	56,947	51,338
5 Non-Performing Finances-net	1,854	2,151	2,629	2,718
Total Assets	409,193	408,390	336,297	283,096
6 Deposits	331,957	344,788	282,937	228,827
7 Borrowings	37,201	23,193	18,128	16,804
8 Other Liabilities (Non-Interest Bearing)	17,043	17,898	16,259	17,770
Total Liabilities	386,201	385,879	317,323	263,400
Equity	22,992	22,511	19,895	19,696

B INCOME STATEMENT

1 Mark Up Earned	7,754	23,235	25,744	23,650
2 Mark Up Expensed	(4,410)	(12,303)	(13,255)	(12,860)
3 Non Mark Up Income	673	2,119	1,635	1,633
Total Income	4,018	13,052	14,124	12,424
4 Non-Mark Up Expenses	(2,678)	(9,623)	(8,764)	(7,794)
5 Provisions/Write offs/Reversals	(466)	(32)	(2,601)	(2,799)
Pre-Tax Profit	873	3,397	2,759	1,831
6 Taxes	(351)	(1,266)	(1,056)	(744)
Profit After Tax	522	2,131	1,703	1,087

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	3.3%	2.9%	4.0%	4.3%
Non-Mark Up Expenses / Total Income	66.7%	73.7%	62.0%	62.7%
ROE	9.2%	10.1%	8.6%	6.4%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	5.6%	5.5%	5.9%	7.0%
Capital Adequacy Ratio	14.3%	14.1%	16.1%	14.9%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	39.7%	38.9%	39.7%	24.6%
(Advances + Net Non-Performing Advances) / Deposits	59.1%	52.5%	46.0%	57.6%
CA Deposits / Deposits	39.4%	38.4%	32.7%	29.6%
SA Deposits / Deposits	30.0%	29.7%	29.9%	28.9%

4 Credit Risk

Non-Performing Advances / Gross Advances	8.2%	8.7%	12.1%	10.7%
Non-Performing Finances-net / Equity	8.1%	9.6%	13.2%	13.8%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. 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	High credit quality. 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	Good credit quality. 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+	Moderate risk. 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	High credit risk. 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	
CC	Very high credit risk. 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.
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 conditions.
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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

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- (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 | Clause 11-(A)(p).
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- (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)
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- (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)

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- (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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