The Pakistan Credit Rating Agency Limited

Rating Report

BankIslami Pakistan Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	YES
22-Jun-2017	A+	A1	Developing	Maintain	-
25-Oct-2016	A+	A1	Rating Watch-Developing	Maintain	-
06-May-2016	A+	A1	Developing	Rating Watch	-

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; 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 comfortable level of 16.1% in CY20. The relaxations related to CAR given by central bank will be withdrawn in CY21, 60% amount have been deducted from CET I capital in CY20.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 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 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.

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 PKR 2 billion.

Disclosure

Name of Rated Entity	BankIslami Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Commercial Bank(Jun-20)
Rating Analysts	Sehar Fatima | sehar.fatima@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 343 branches.

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 (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.

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 three leading Islamic scholars of the country, namely (i) Mufti Irshad Ahmad Aijaz, ii) Mufti Muhammad Husain, and iii) Mufti Javed Ahmed.

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 five committees namely i) Audit Committee, ii) Board Remuneration Committee iii) Human Resource & Management Committee, (iv) Risk Management Committee, (v) IT Committee.

Financial Transparency During the year, 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

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.

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 The indicators of the banking sector reflected mixed trend where economy is recovering from the effects of COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to COVID-19 outbreak, the banking sector managed to grow by 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 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 deferment period allowed, the aftermath is yet to be comprehended by the industry.

Relative Position 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%.

Revenues During period CY20, the bank earned 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, NIMR of the bank stood at PKR 2.5bln

Performance During CY20, other operating income of the bank remained stagnant and stood at PKR 1.63bln (CY19: PKR 1.63bln) primarily due to 63% decrease in gain on sales of investment, while fee and commission and foreign exchange income grew by double-digit. 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) . While in 3MCY21, profit after tax of the bank stood at PKR 390mln.

Sustainability 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, increasing its digital penetration through innovation and up gradation of technology to improve processes and service quality.

Financial Risk

Credit Risk During CY20, performing gross advances inches down by 1.08% and registered at PKR 127.9bln (CY19: PKR 129.3bln). At the end of CY20, the NPLs of the Bank increased by 13.5% of PKR 17.5bln (CY19: PKR 15.4bln). Going forward, prudent management of NPLs remains essential. Credit risk over advances witnessed decreased to 84.5% at end-Dec20 (end-Dec19: 92.4%). Furthermore, in 3MCY21 performing gross advances and NPLs of the bank increased and clocked at PKR 149.1bln and PKR 18.8bln respectively.

Market Risk BIPL's investment portfolio witnessed an increase to PKR 87.8bln (end-Dec19: PKR 46.9bln). Portfolio increased mainly due to an increase in Government Securities of PKR 44.5bln. The investment composition remained tilted towards government securities (end- Dec: 98%) excluding debt instruments. While during 3MCY21, the investment Govt. portfolio stood at PKR 100.3bln.

Liquidity And Funding 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. CA and SA ratios slightly increased (end-Dec20: 32.3%; end- Dec19: 29.6%) & (end-Dec20: 30.3%; end-Dec19: 28.9%) respectively. The bank's liquidity position has significantly increased evidently by the Liquid assets to Deposits & Borrowing ratio (CY20: 39.8%; CY19: 24.6%), primarily driven by the increase in government securities. Furthermore as at end-Mar21, CA and SA ratio stood at 33.0% and 30.8% respectively.

Capitalization The bank has an equity base of PKR 19.89bln in CY20. 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. While in 3MCY21, CAR of the bank stood at 15.2%.

PKR mln

BankIslami Pakistan Limited Listed Public Limited	Mar-21 3M	Dec-20 12M	Dec-19 12M	Dec-18 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
Total Assets	343,555	336,297	283,096	215,743
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
Total Liabilities	323,118	316,402	263,400	201,228
Equity	20,438	19,895	19,696	14,515
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
Total Income	2,883	14,124	12,424	7,298
4 Non-Mark Up Expenses	(2,199)	(8,764)	(7,794)	(6,858)
5 Provisions/Write offs/Reversals	(47)	(2,601)	(2,799)	(36)
Pre-Tax Profit	637	2,759	1,831	404
6 Taxes	(247)	(1,056)	(744)	(190)
Profit After Tax	390	1,703	1,087	214
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

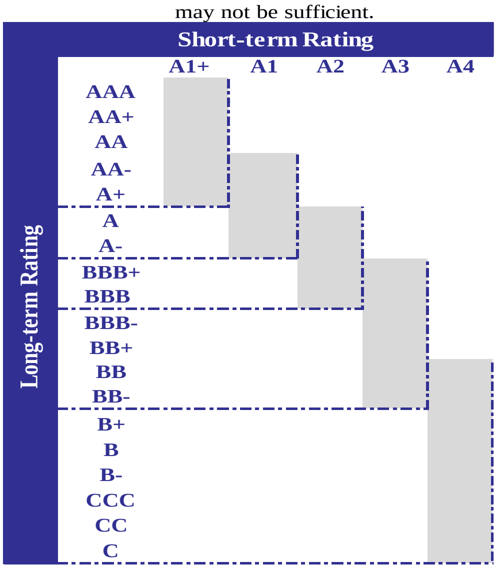
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ BB 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	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 surveill 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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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)
Proprietary Information
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent