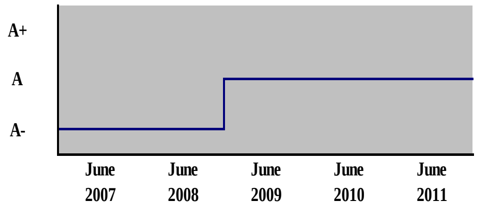
The Pakistan Credit Rating Agency Limited

BANKING

RATINGS (JUNE 2011)
BANKISLAMI PAKISTAN LIMITED (BIPL)

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

L.T. ENTITY RATING – HISTORY



FINANCIAL DATA
PKR (mln)

	Mar-11*	Dec-10	Dec-09
Total Assets	47,580	45,035	34,271
Equity	4,783	4,734	4,687
Net Income / (Loss)	49	47	(490)
NPLs	719	747	788
Net NPLs/Equity (%)	8.0	8.7	11.5
Equity / Total Assets (%)	10.1	10.5	13.7
ROA (%)	0.42**	0.12	-1.84
ROE (%)	4.13**	0.99	-9.93
SBP CAR (%)	19.2	19.5	20.4

**Based on unaudited accounts for three months*
*** Annualized*

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect BIPL's sustained progression towards establishing itself as a key player in the emerging Islamic banking industry. The ratings incorporate the bank's ability to arrest infection in its advances portfolio as reflected in its strong asset quality. Moreover, significant improvement in BIPL's net interest revenue has helped the bank in achieving bottom-line profitability. Meanwhile the bank enjoys good liquidity and strong capitalization.
- The ratings are dependent on the bank's ability to sustain its growth momentum while maintaining good asset quality. At the same time, firmness in the bank's profitability to ensure sustainable risk absorption cover would be crucial. Although the bank is non-compliant with regulatory nominal capital requirement, the management is in dialogue with SBP and expects favorable outcome.

ASSESSMENT

- The macroeconomic landscape of Pakistan remains uncertain. Although a few indicators have improved as reflected in current account surplus, prolonged energy crisis, stubborn inflationary pressure and burgeoning fiscal imbalance continue to pose major challenges to economic growth. This is also reflected in continuing weakening in the asset quality of the banks. The pace of accumulation of NPLs has stalled lately, but it would be challenging for the banks to maintain asset quality amidst subdued business sentiments.
- BIPL achieved significant growth in advances and deposits helping the bank in registering higher system share on YoY basis. The leading segments stimulating expansion in advances were Murabaha financing and diminishing Musharaka. Moreover, addition of Istisn'a and acquisition of Citibank's housing portfolio made progressive contribution to the advances portfolio. The top 20 concentration remained higher (10: 58%, 09: 53%), attributed to selective lending approach. However, the bank's top twenty deposit concentration remained low (10: 11%, 09: 12%).
- During 2010, BIPL experienced significant enhancement in its net interest revenue. Although the bank's cost of funds increased nominally, the spread observed noticeable improvement (10: 7.1%, 09: 6.1%) due to considerable rise in earning assets with the availability of GoP Ijarah Sukuk. However, the bank's other operating income dropped mainly due to fall in income from dealing in foreign currencies. In the absence of network expansion, inflationary pressure impacted the operating expenses modestly. Moreover, reduction in the classified portfolio resulted in significantly lower provisioning expense. Consequently, the bank registered positive ROE, first time since its inception. During 1Q11, the improving trend in performance has continued mainly on the back of higher asset yield.
- Going forward, the bank, with a continued focus on utilizing its existing network, plans to enhance its financing portfolio with simultaneous expansion in deposit base. However, the bank does not intend to forsake its cautious lending approach with limited interest in consumer financing. A major portion of financing growth would emanate from deployment in Govt. securities with selective lending to corporate and commercial customers. Moreover, liquidation of few real estate assets, acquired in lieu of loan restructuring, is expected to provide additional liquidity to the bank. Meanwhile, fee based avenues, to date having limited contribution particularly in comparison to peers, will be explored to bolster growth in non-fund income.
- BIPL observed reduction in infected portfolio on YoY basis, as reflected by its NPLs to Gross Advances ratio (10: 4.4%, 09: 7.4%) – lowest among peers. Going forward, the management plans to sustain this level, by keeping a conservative risk appetite. Given increasingly tough operating environment in the country, the extent of the bank's success in this regard remains to be seen.
- The bank's investment portfolio constitutes 30% of the assets at end-Mar11 (end-Mar10: 12%). Due to limited investment avenues available to the Islamic financial institution, BIPL's investment portfolio is dominated by government securities mainly Govt. Sukuk bonds – SBP Ijarah.
- The bank, with its low advances-to-deposit ratio, maintains strong liquidity. Its CAR, standing above 19% at end-Mar11, offers significant room for expansion. The bank is non-compliant with the MCR of PKR 7bln for 2010 set by SBP, though it has been granted extension till June 30, 2011. Insofar as non-compliance with MCR does not impact the bank's capital adequacy, its risk absorption capacity is not likely to get affected. The bank's priority would be to meet MCR gradually through internal generation. In any contingency, the bank has already approved a right issue to take paid-up capital to PKR 6bln.

PROFILE

- BIPL, a scheduled Islamic bank, commenced operations in Apr-06 and is listed on the Karachi Stock Exchange. The bank is a joint venture among three 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 has recently been taken over by Government of Dubai (GD). GD intends to inject capital in the bank to ensure continuation of the bank's operations. JSCL is the holding company of JS group and notably JS Bank. JS group also has sizeable stakes in industrial, information, property, transport and energy sectors. The bank has a strategic investment (PKR 191mln) in the wholly owned subsidiary – BankIslami Modaraba Investments Limited.
- The seven members BoD constitutes 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 Islamic banking in the country.

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