

BankIslami Pakistan Limited (BIPL)

RATINGS (JUNE 2008)

BANKISLAMI PAKISTAN LIMITED (BIPL)

	New	Previous
Entity		
Long Term	A-	A-
Short Term	A2	A2

FINANCIAL DATA

PKR (mln)	31-Dec-07	31-Dec-06
Total Assets	14,448	4,025
Equity	3,836	1,992
Net (Loss)	(37)	(8)
Equity/Assets (%)	26.6	49.5
SBP CAR (%)	37.9	61.8

ANALYSTS

Jhangeer Hanif
+92 42 586 9504
jhangeer@pacra.com

Moin Khalid
+92 42 586 9504
moin@pacra.com

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect BIPL's articulated business plan to fast establish itself as an active player in the emerging Islamic banking segment. The bank, in a short span of time, has set up an adequate operating platform, supplemented by an effective risk management framework, to execute its overall business plan. However, the extent to which the strategies materialize into desired results, and the related timeline remain to be seen. At the same time, the ratings take into account the sound financial standing of the sponsoring groups.
- The ratings are dependent on success of the management in effectively implementing its business plan to achieve the desired results. However, given that a large number of banks are attempting to capitalize the Islamic banking niche, BIPL would be facing stiff competition in achieving its relatively aggressive targets. Meanwhile, the efficacy of the newly developed risk management systems and processes during the rapid expansionary phase is important. At the same time, while attracting capable human resource, the cohesiveness of the key management team would be critical.

ASSESSMENT

- BIPL, inline with its aggressive growth strategy, achieved sizeable expansion in both its finances and deposits during 2007. While growth in deposits was mainly supported by individual depositors conscious of *shariah* compliance, corporates and SMEs were main contributors towards expansion of the advances portfolio. Moreover, BIPL made inroads into the consumer segment with launch of home financing product – *Muskun*. Nonetheless, corporate lending continued dominating BIPL's advances portfolio, with overall low asset yield restricting any material improvement in spreads.
- As a part of its strategy, the management is putting a great emphasis on developing non-fund based revenues. During 2007, BIPL initiated investment banking business under a separate department mainly with an aim to tap the emerging *sukuk* market. Moreover, the bank also entered into trusteeship/agency relationships. Meanwhile, capital market operations also contributed to the bottomline. Given initial phase of operations and focus on branch expansion, BIPL has a high operating cost structure.
- BIPL intends to continue fortifying its infrastructure during 2008. With planned addition of another 30 full-scale branches and 32 sub-branches, extension of the human resource base (08:1,649, 07:563) would be a major challenge to the bank. In addition, the bank targets completion of a number of initiatives in the ambit of information technology. Meanwhile, BIPL projects a substantial increase in its advances portfolio. The bank, in addition to expanding its current corporate and SMEs loan book, intends to penetrate further, though cautiously, into the consumer segment. The target is to take consumer financing, over the medium term, upto 10%-15% of the total advances. With expansion in outreach, the bank intends to rationalize its deposit mix by substituting a portion of term deposits with current deposits. Nevertheless, deployment of excess liquidity would remain a challenge in the absence of an active *shariah* compliant money market. Earnings from investment banking business are expected to grow significantly. The deal pipeline is currently healthy. Meanwhile, BIPL plans to lay down requisite infrastructure for offering wealth management services, going forward.
- BIPL has acquired a core banking software, *iMal*, developed by Path Solutions, a software house in the Middle East. Based on *shariah* stipulations and compliant with Basel II accord, and international accounting and auditing standards, *iMal* provides an integrated solution for all operational requirements, while supporting other business functions of the bank. *iMal* also provides proactive risk management capabilities. Currently in the validation phase, *iMal* is expected to be fully implemented by Jun09.
- The ongoing improvement in the risk management system, considering the aggressive growth targets, is critical for ensuring the overall success of the business plan. The management has devised adequate policies and procedures for managing various risks, and is making efforts at building a strong risk management framework. In this regard, an integrated risk management division has been established, the various segments of which are headed by experienced professionals. BIPL, given initial phase of its operations, has a virtually infection free advances portfolio.
- BIPL, mainly due to un-utilized resources, has a relatively high level of capitalization. Although the current level of CAR offers significant room for credit expansion, with restricted internal generation, the bank would remain dependent on its sponsors' support for meeting increasing absolute capital requirements as prescribed by SBP, going forward.

PROFILE

- BankIslami Pakistan Limited (BIPL), a scheduled Islamic bank, commenced operations in Apr06 and is listed on the Karachi Stock Exchange. BIPL is a joint venture among three financially sound business groups, holding a cumulative of 56% stake, namely DCD Group UK, Dubai Bank PSJC, and Jahangir Siddiqui & Company Limited (JSCL). With its head-office in Karachi, the bank currently has a network of 36 branches.
- 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, recently converted into an Islamic Bank, is 70% owned by Dubai Holdings, while the remaining 30% is with Emmar Properties. Dubai Holdings is the investment arm of the government of Dubai. JSCL is the holding company of JS group – having presence in all important dimensions of the financial sector. JS group also has sizeable stakes in industrial, information, property, transport and energy sectors.
- The seven member BoD comprises representatives of sponsoring groups. The CEO, Mr Hasan A. Bilgrami, possesses extensive experience with leading financial institutions. He has played an active role in the development of the Islamic banking policies and products in the country.