



## Rating Action

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## Applicable Criteria and Related Research

- Islamic Banking - Viewpoint | Feb-16
- Bank Rating Methodology

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## PACRA MAINTAINS ENTITY RATINGS OF BANKISLAMI PAKISTAN LIMITED

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short term entity ratings of BankIslami Pakistan Limited (BIPL) at "A+" (Single A plus) and "A1"(A One). The ratings denote a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

The ratings reflect BankIslami's established position in the country's Islamic banking space. With the acquisition of erstwhile KASB Bank in May 2015, BankIslami's system share in deposits improved. Post acquisition, BIPL had faced significant withdrawal of deposits, owing to removal of moratorium imposed on erstwhile KASB Bank. However, same was managed successfully. Moreover, this acquisition resulted in i) increase in footprint, ii) deposit base, and iii) strategic investment book. The Bank also inherited carried forward tax losses and a sizeable portfolio of non-performing assets; that has its own challenges and opportunities. To compensate the Bank for negative net worth of the defunct KASB Bank, it was also provided low cost subordinated loan facility from SBP; supporting Bank's revenue and CAR. Although BankIslami has enhanced deposit base, yet risk of withdrawal from key depositor acquired through amalgamation (representing 13% in total deposit) remains. Given time required to fully absorb KASB Bank related costs, operational performance is under pressure. Meanwhile, recoveries from non-performing loans provide support and lately BIPL has started progressing to achieve profitability. The management, while synergizing on enhanced outreach intends to pursue growth.

The ratings require sustainable improvement in operational performance, in turn, maintaining positive trend in bottom-line. At the same time maintaining a strong capital adequacy while pursuing growth is important. Any downward spiral in profits, or incidence of non-performing assets may negatively impact the ratings. Meanwhile, ratings remain on **Watch** to monitor ascend forward profitability from core operations and manage any unforeseen issues related to erstwhile KASB Bank.

**ABOUT THE BANK:** BIPL, a scheduled Islamic bank, commenced operations in Apr-06 and is listed on the Pakistan Stock Exchange. BankIslami Pakistan Limited acquired KASB Bank Limited, which stands merged with and into BankIslami effective May 07, 2015. Post-acquisition, BIPL has a branch network of 317 branches. The four business groups hold a cumulative ~76% stake namely Jahangir Siddiqui & Company Limited (JSCL) (21%), Mr. Ali Hussain along with SAJ Capital Management Limited (21%), DCD Group UK (~20%), and Dubai Bank PJSC (14%).

BIPL's eight member board of directors (BoD) including CEO and independent directors constitutes representatives of sponsoring groups. Mr. Hasan A. Bilgrami, the founding CEO and possessing experience with leading financial institutions, has been instrumental in the development of the bank and stays as the key resource. He is supported by an able team.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.