JCR-VIS Credit Rating Company Limited

Rating Report

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Al Baraka Bank (Pakistan) Limited

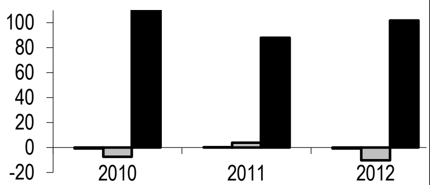
Chairman: Mr. Adnan Ahmed Yousif; President: Mr. Shafqaat Ahmed

July 4, 2013

Analysts: Sobia Maqbool, CFA
Talha Iqbal

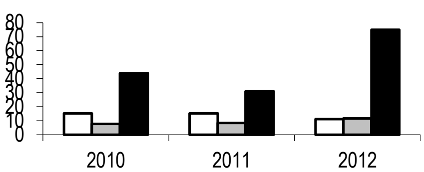
Category	Latest	Previous
Entity	A/A-1	A/A-1
	June 28, '13	*June 29, '12*
Outlook	Stable	Stable
	June 28, '13	*June 29, '12*

Key Financial Trends



*Basic ROAA% ROAE% Efficiency%

* *Based on recurring profit before provision and taxation*



CAR (%) Net Infection (%)

Net NPL%Tier 1 Capital

	2010	2011	2012
Net Financings (Rs. in b)	27.7	29.2	28.8
Deposits (Rs.in b)	49.3	61.6	63.3
Deposit Cost (%)	8.1%	8.9%	7.83%
Profit / (Loss) (Rs.in m)	-856	410	-643
Net Worth (Rs. in b)	6.1	6.5	6.0
CAR (%)	15.3%	15.1%	11.18%
Liquid Assets % Deposits & Borrowings	44.5%	52%	55%
Net Infection (%)	7.8%	8.5%	11.7%

Rating Rationale

The ratings assigned to Al-Baraka Bank (Pakistan) Limited (ABPL) take into account implicit support of the major sponsor, which is part of the Al Baraka Banking Group. Recently, ABPL has submitted a capitalization plan to the State Bank of Pakistan (SBP).. At end-March'13, CAR was reported lower at 10.65% on account of growth in risk weighted assets. Capital injection in line with the proposed plan, once approved by the regulator, will allow the bank to meet minimum capital requirement over time and create room for future growth.

Ratings also draw on the bank's sound liquidity profile and improved deposit mix. Given the focus on low cost deposits, deposit base of the bank witnessed only modest growth during 2012. However, composition of deposits has witnessed gradual improvement with a decline in term deposits to 39% (2011: 47%) by end-Mar'13 and increase in CASA deposits to 53%. Resultantly, there has been a notable improvement in cost of deposits in 2012 and the on-going year. Improvement is also warranted in deposit concentration levels which have increased in 2012.

In order to further enhance portfolio monitoring, a revised organogram based on a new structure of business led model has been implemented in November'12 relative to branch led model in place earlier. Subsequently, financing portfolio has witnessed some growth. While fresh lending, post merger, has largely been against established names; overall portfolio quality has room for improvement. Provisioning coverage is also on the lower side at 45% on account of FSV benefit availed by the bank. Moreover, net NPLs in relation to equity are currently sizeable.

Corporate portfolio is concentrated in terms of number of relationships which is primarily a function of the small portfolio size. Financial stress on some of the large counterparties, where the entire banking sector had considerable exposure, has contributed to weakening in overall asset quality indicators. Going forward, strong focus on targeted recoveries and re-activating earnings from specific non-performing clients is planned.. Significant progress has been made towards target set for 2013, in the first few months, which is likely to improve portfolio quality indicators.

Exposure to GoP Ijarah Sukuk represented around 28% of the asset base at year-end 2012 and holding in the same has been maintained at prior year level. While credit risk emanating from the same is considered low; these are exposed to reinvestment risk in a declining interest rate scenario.

After experiencing weakening in 2012, spreads have improved in 1Q13. Subsequently, there has been additional cut in discount rate. The management plans to off-set the impact of declining returns on spread income by rationalizing deposit cost further. As an Islamic bank, removal of floor on return on saving deposits offers greater flexibility in managing cost of deposits. Besides core operations, level of future profitability of the bank would depend on recoveries against non-performing clients, which are currently creating a drag on earnings.

Overview of the Institution

Al-Baraka Bank (Pakistan) Limited is a subsidiary of the Al Baraka Islamic B.S.C. (C), Bahrain and a member of Al Baraka Banking Group. ABPL is operating with 94 branches. The financial statements of 2012 have been audited by Ernst & Young Ford Sidat Hyder (Chartered Accountants) JCR-VIS