Al Baraka Bank (Pakistan) Limited

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

July 2, 2014

Analysts: Talha Iqbal
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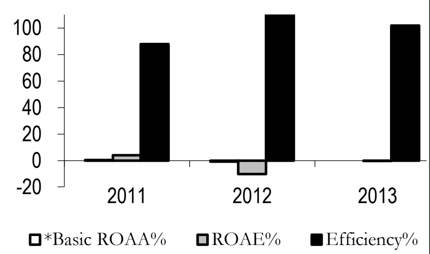
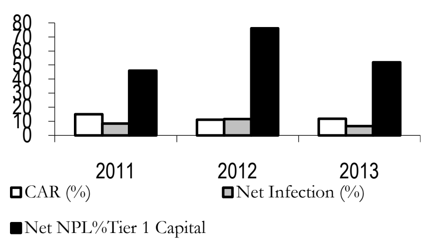
Category	Latest	Previous
Entity	A/A-1	A/A-1
	June 30, '14	*June 28, '13*
Outlook	Stable	Stable
	June 30, '14	*June 28, '13*

Key Financial Trends



** Based on recurring profit before provision and taxation*



	2012	2013	1Q14
Net Financings (Rs. in b)	28.8	37.0	36.9
Deposits (Rs.in b)	63.3	75.6	67.1
Deposit Cost (%)	7.8%	6.2%	5.8%*
Profit / (Loss) (Rs.in m)	(645)	(41)	35
Net Worth (Rs. in b)	6.0	5.8	6.0
CAR (%)	11.18%	11.97%	11.92%
Liquid Assets % Deposits & Borrowings	59%	55%	50%
Net Infection (%)	11.7%	6.7%	6.7%

*Annualized

Rating Rationale

Assigned ratings of Al-Baraka Bank (Pakistan) Limited (ABPL) derive strength from its association with the Al-Baraka Banking Group; a prominent Islamic Banking Group having diversified operations in 15 countries. Recently, Al Baraka Islamic Bank B.S.C. (C), Bahrain has made available Rs. 1.16b in the form of subordinated loan, to be counted towards the bank's minimum capital requirement, which reflects positively on the sponsor's commitment towards operations in Pakistan. This has allowed the bank to report slightly improved CAR despite growth in financing portfolio. As per the bank's capitalization plan, an additional Rs. 1.65b of sub-ordinated debt is to be made available over the course of the next two years. At year-end 2013, the bank reported MCR eligible capital of Rs. 6.99b (includes sub-ordinated debt of Rs. 1.16b) while Capital Adequacy Ratio (CAR) was reported at 11.97%, against a requirement of 16%. In order to achieve compliance with CAR requirement, ABPL is in the process of issuing a Rs. 2.5b unsecured & sub-ordinated Sukuk. Subsequent to the issuance, CAR is expected to be in excess of 16%.

Liquidity profile of the bank is considered adequate in view of sizeable liquid assets in relation to deposits and borrowings. The liquidity carried on balance sheet mitigates the risk associated with high deposit concentration levels. Most of the deposit growth witnessed in FY13 was reversed in 1Q14; decline was manifested in fixed and FI deposits. A broad based depositor profile may allow the bank to achieve more sustainable growth in deposits.

Financing portfolio of the bank has depicted healthy growth in 2013. Increase has been witnessed across corporate as well as the SME/Commercial segments. Fresh exposures in the corporate segment have been taken against established names. Overall portfolio now comprises a mix of top and mid-tier clients. Financing portfolio of the bank features concentration with top 20 clients representing a third of the overall portfolio. As the universe of top-tier clients is increasingly becoming saturated, management has identified Commercial and SME sectors as future growth areas. This will allow the bank to achieve greater breadth in lending operations while also mitigating the adverse impact of concentration in the portfolio. Sizeable recoveries against non-performing financing resulted in improvement in portfolio quality indicators, though they still compare less favorably to peers. As per management, significant progress has been made towards recoveries against select NPFs in 2014 which is expected to improve portfolio quality indicators further.

Net investment portfolio of the bank reduced in 2013 on account of decline in holding of GoP Ijarah Sukuk. Given that around three fourths of the investment portfolio represents exposure to sovereign instruments, risk emanating from the same is considered limited. The bank also holds foreign currency Sukuk; overall bank's exposure to foreign currency risk is hedged as exposure in foreign currency bonds represented 50% of foreign currency deposits held by the bank. Given the limited avenues for deployment of excess liquidity, exposure towards relatively low yielding assets, such as placements with other banks, has showcased a rising trend and affected the bank's yield on earning assets.

Profitability indicators have posted noticeable improvement in the ongoing year with an operating profit of Rs. 44.2m reported in 1Q14. This is attributable to higher net spreads in absolute terms and increase in fee based income while expense base has only witnessed a slight increase. The latter has been made possible because of lower overheads associated with the new branches having a rural focus, where time taken to achieve break-even is less than a year. Based on performance in the on-going year, ABPL is on track to achieve its profitability target of Rs. 206m for 2014.

During 2013, ABPL opened 16 new branches. Branch expansion is planned to continue with branch network targeted to reach 235 branches by year-end 2018. This is likely to enable the bank to achieve broad based growth in deposits. Overall sector dynamics remain positive with the Islamic Banking Industry (IBI) in Pakistan posting robust growth, with market share of over 10% at year-end 2013 in terms of deposits. The growth trajectory is likely to continue with the State Bank of Pakistan envisaging increase in market share of IBI to 15% by end 2018, as per the recently launched five year strategic plan.

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 110 branches. The financial statements for 2013 have been audited by Ernst & Young Ford Rhodes Sidat Hyder (Chartered Accountants) JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: ENTITY		
30-Jun-14	A	Stable	A-1	Reaffirmed
28-Jun-13	A	Stable	A-1	Reaffirmed
29-Jun-12	A	Stable	A-1	Reaffirmed
04-Jul-11	A	Stable	A-1	Initial