# RATING REPORT

# Al-Baraka Bank (Pakistan) Limited

**REPORT DATE:**
July 1, 2015

**RATING ANALYSTS:**
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## RATING DETAILS

| Rating Category | Latest Rating | | Previous Rating | |
|---|---|---|---|---|
| | Long-term | Short-term | Long-term | Short-term |
| **Entity** | A | A-1 | A | A-1 |
| **Outlook** | Positive | | Stable | |
| ***Date*** | *June 29, 2015* | | *June 30, 2014* | |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in December 2004** | **External auditors:** Ernst & Young Ford Rhodes Sidat Hyder |
| **Key Shareholders (with stake 5% or more):** | **Chairman of the Board:** Mr. Adnan Ahmed Yousif |
| - AlBaraka Islamic Bank B.S.C: 64.6% | **Chief Executive Officer:** Mr. Shafqaat Ahmed |
| - Mal Al Khaleej Investment LLC: 17.7% | |
| - Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi: 11.5% | |

## APPLICABLE METHODOLOGY

**JCR-VIS Commercial Banks Rating** *http://jcrvis.com.pk/images/primercb.pdf*

# Al-Baraka Bank (Pakistan) Limited

## OVERVIEW OF THE INSTITUTION

ABPL is a subsidiary of the Al Baraka Islamic Bank B.S.C. (C), Bahrain and a member of Al Baraka Banking Group. ABPL is operating with 135 branches.

Dagong Global Credit Rating Company Limited (Dagong) and Islamic International Rating Agency (IIRA) have jointly assessed the international scale credit ratings of ABG at 'BBB+/A3' (Triple B Plus/A-Three). In addition, IIRA has assessed ABG's national scale ratings at 'A+(bh)/A2(bh)' (Single A Plus/A-Two).

## RATING RATIONALE

Owned in majority by Al Baraka Islamic Bank B.S.C. Bahrain, a member of Al-Baraka Banking Group (ABG), Al-Baraka Bank (Pakistan) Limited (ABPL) benefits from the group's multi-jurisdictional presence and strong franchise in addition to guidance in the area of Islamic banking. The group is regarded as being amongst the pioneers in Islamic finance.

In line with the capital plan approved for the bank, the key sponsor has extended free of cost sub-ordinated loan to the tune of USD 19.5m by end April 2015, with a further USD 7.0m required to be made available by end FY15. This has been placed in a non-remunerative foreign currency account with the State Bank of Pakistan and has allowed the bank to bridge the gap in minimum capital requirement (MCR). Moreover, the bank also issued Rs. 2.0b of privately place sub-ordinated Sukuk to meet the Capital Adequacy Ratio requirement, which was previously 15% and now reduced to 14% for the bank. The sponsor's loan would be converted into equity if MCR compliance is not achieved by December 31, 2016.

Profitability pressures are likely to shape the bank's business strategy on a continuing basis. Interest rates in Pakistan have touched record low levels. For Islamic banks, where most assets are re-priceable, barring the Bai Muajjal transactions with SBP introduced lately, the pressure on spreads is likely to be greater. In order to address these challenges, ABPL has been aggressively working to contain its cost of deposits in addition to which growth in high margin segments is being pursued to enhance return on assets.

The bank's overall exposure to credit risk has declined over time as manifested in improved asset quality indicators and a slight reduction in portfolio concentration on a time-line basis. Incidence of non-performance in financings undertaken in recent years has been minimal. Moreover, the impact of previously classified exposures is gradually being absorbed by way of provisions in addition to which recoveries have also been realized, with net infection reducing to 2.9% by end FY14 vis-à-vis 6.8% at the end of preceding year. Further reduction in risk concentration is warranted which is proposed to be achieved by way of growth in commercial and SME segments. Within the corporate loan book, the bank has established relationships with some top tier clients in recent years.

Liquidity profile of the bank remains adequate in view of liquid assets representing 43.8% (FY13: 51.5%) of deposits and borrowings; this mitigates the risk of high concentration in deposit mix to an extent, providing cushion to manage withdrawals, if any. Over time, concerted efforts are however required to diversify the deposit mix. Deposits increased to Rs. 80.2b in FY14 from Rs. 75.7b in the preceding year; however majority of the increase reversed in 1Q15 with deposits reported at Rs. 77.1b.

A sizeable portion of liquid assets carried on books comprise GoP Ijarah Sukuk; about one-fifth of the same are due to mature in the on-going year. ABPL had subscribed to almost a quarter of the latest GoP Ijarah Sukuk issued in the market in the first half of FY14; these holdings are expected to remain sufficient for meeting most of the bank's SLR requirement. Expanding deposit base may nevertheless present liquidity management challenges akin to other Islamic banks, unless the bank is able to grow its financing book, room for which is restricted to an extent, given the minimum CAR requirement imposed on the bank.

## Al-Baraka Bank (Pakistan) Limited — Appendix I

### FINANCIAL SUMMARY *(amounts in PKR millions)*

| BALANCE SHEET | DEC 31, 2014 | DEC 31, 2013 | DEC 31, 2012 |
|---|---|---|---|
| Investments | 19,560.7 | 22,161.9 | 27,421.5 |
| Islamic Financing & Other Assets | 47,022.6 | 36,519.9 | 28,782.5 |
| Total Assets | 94,348.8 | 87,759.4 | 73,866.6 |
| Borrowings | 2,211.6 | 2,201.9 | 1991.7 |
| Deposits & other accounts | 80,222.6 | 75,647.1 | 63,278.7 |
| Subordinated Loans | 3,105.3 | 1,158.6 | - |
| Tier-1 Equity | 6,050.9 | 5,830.8 | 5,881.1 |
| Net Worth | 5,901.3 | 5,848.2 | 6,019.5 |

| INCOME STATEMENT | DEC 31, 2014 | DEC 31, 2013 | DEC 31, 2012 |
|---|---|---|---|
| Net Mark-up Income | 2,169.7 | 1,791.1 | 1545.9 |
| Net Provisioning / (Reversal) | 85.2 | 171.1 | 802.5 |
| Non-Markup Income | 726.5 | 593.5 | 406.2 |
| Operating Expenses | 2,545.6 | 2,118.6 | 1,994.5 |
| Profit/ (Loss) Before Tax | 216.6 | (33.6) | (956.4) |
| Profit / (Loss) After Tax | 145.9 | (41.2) | (644.9) |

| RATIO ANALYSIS | DEC 31, 2014 | DEC 31, 2013 | DEC 31, 2012 |
|---|---|---|---|
| Market Share (Advances) (%) | 1.1 | 0.9 | 0.8 |
| Market Share (Deposits) (%) | 1.0 | 1.0 | 0.9 |
| Gross Infection (%) | 8.4 | 13.4 | 19.3 |
| Provisioning Coverage (%) | 66.9 | 52.9 | 44.5 |
| Net Infection (%) | 2.9 | 6.8 | 11.7 |
| Cost of deposits (%) | 6.1 | 6.2 | 7.9 |
| Net NPLs to Tier-1 Capital (%) | 22.8 | 42.2 | 57.5 |
| Capital Adequacy Ratio (C.A.R (%)) | 14.2 | 11.9 | 11.2 |
| Markup Spreads (%) | 3.3 | 2.8 | 3.3 |
| Efficiency (%) | 91.8 | 91.7 | 102.6 |
| Basic ROAA (%)* | 0.3 | 0.2 | -0.1 |
| ROAA (%) | 0.2 | -0.1 | -0.9 |
| ROAE (%) | 2.5 | -0.7 | -10.3 |
| Liquid Assets to Deposits & Borrowings (%) | 43.8 | 51.5 | 59.0 |

***recurring income less administrative expenses**

## ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

**Medium to Long-Term**

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

**Short-Term**

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

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**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

| REGULATORY DISCLOSURES | Appendix III |
|---|---|
| **Name of Rated Entity** | Al-Baraka Bank (Pakistan) Limited |
| **Sector** | Commercial Banks |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |

**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| 29-Jun-15 | A | A-1 | Positive | Maintained |
| 30-Jun-14 | A | A-1 | Stable | Reaffirmed |
| 28-Jun-13 | A | A-1 | Stable | Reaffirmed |
| 29-Jun-12 | A | A-1 | Stable | Reaffirmed |
| 04-Jul-11 | A | A-1 | Stable | Initial |

| | |
|---|---|
| **Instrument Structure** | N/A |
| **Statement by the Rating Team** | JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. |
| **Probability of Default** | JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. |
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