RATING REPORT

Al-Baraka Bank (Pakistan) Limited

REPORT DATE:
July 4, 2016

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	Rating Watch Developing		Positive	
Date	*June 30, 2016*		*June 29, 2015*	

COMPANY INFORMATION

Incorporated in December 2004	**External auditors:** Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants
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://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf*

Al-Baraka Bank (Pakistan) Limited

OVERVIEW OF THE INSTITUTION	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 multijurisdictional 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 December 2004, Al-Baraka Bank (Pakistan) Limited (ABPL) was incorporated as a subsidiary of Al-Baraka Islamic Bank B.S.C, which is domiciled in the Kingdom of Bahrain. The parent is part of Al-Baraka Banking Group B.S.C (ABG).

ABPL is in process of reviewing the acquisition/merger of a local bank in the ongoing year, subject to regulatory approval of SBP. The proposed acquisition/merger is expected to strengthen the capitalization indicators of ABPL along with extended market outreach.

Rating Drivers

- **Sponsor Support:** Assigned ratings derive strength from the bank's association with ABG; a prominent Islamic Banking Group having diversified operations in 15 countries. ABG has demonstrated financial support to ABPL in the form of free of cost sub-ordinated loan to the tune of Rs. 2.0b (CY14: Rs. 1.1b) as at end-CY15
- **Capitalization:** At end of the outgoing year, the bank reported Minimum Capital Requirement (MCR) eligible capital of Rs. 8.171b while CAR reported at 14.54%, against a requirement of 14%. MCR and CAR compliance may be achieved if merger with BBL reaches completion in the ongoing year, subject to approval of SBP. The same is expected to allow the bank sufficient room to grow its operations.
- **Advances:** Growth in financing portfolio, particularly corporate advances, was restricted in order to keep CAR within required level prescribed by SBP. Concentration within top 20 clients featured improvement; the same remains on the higher side and warrants further reduction. Recoveries against non-performing financing resulted in improvement in portfolio quality indicators. Given the reduction in NPLs, gross and net infection showcased slight decrease. Further reduction in risk concentration is warranted which is aimed to be achieved by way of growth in commercial and SME segments.
- **Liquidity:** Liquidity profile of the bank is considered adequate with liquid assets in relation to deposits and borrowings amounting to 40.4% (CY14: 45.9%). As part of management strategy to reduce cost of funds, ABPL has shed high cost deposits. On the other hand, there was notable increase in current and saving accounts (CASA) to total deposits ratio.
- **Investments:** Net investment portfolio of the bank reduced in CY15 on account of decline in holding of GoP Ijarah Sukuk. Given that over two-thirds of the investment portfolio represents exposure to sovereign instruments, credit risk emanating from the same is considered limited.
- **Profitability:** Despite declining discount rates, profitability posted improvement in the outgoing year on account of higher spreads resulting from decline in cost of deposits. For Islamic banks, where most assets are repriceable, barring the Bai Muajjal transactions with SBP, the pressure on spreads from low interest rates is likely to be greater. Efficiency ratio remained around prior year's level in CY15 despite higher core earnings owing to increase in cost base; there remains significant room for improvement in the efficiency ratio.

Outlook

Lending activity is expected to remain constrained, unless regulatory requirements for capital are met by the bank. In order to improve profitability, ABPL plans to continue focus on generating low cost deposits through increase in CASA.

Al-Baraka Bank (Pakistan) Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Investments	19,190.1	29,566.6	22,161.9
Islamic Financing & Other Assets	47,644.7	47,022.6	36,519.9
Total Assets	86,932.5	94,348.8	87,759.4
Borrowings	5,865.0	2,211.6	2,201.9
Deposits & other accounts	71,644.4	80,222.6	75,647.1
Subordinated Loans	3,756.7	3,105.3	1,158.6
Tier-1 Equity	7,103.4	5,660.9	5,947.4
Net Worth	6,300.0	5,901.3	5,848.2
INCOME STATEMENT	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Net Mark-up Income	2,478.4	2,169.7	1,791.1
Net Provisioning / (Reversal)	(125.0)	85.2	171.1
Non-Markup Income	656.3	726.5	593.5
Operating Expenses	2,848.9	2,545.6	2,118.6
Profit/ (Loss) Before Tax	406.6	216.6	(33.6)
Profit / (Loss) After Tax	240.4	145.9	(41.2)
RATIO ANALYSIS	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Market Share (Advances) (%)	1.0	1.1	0.9
Market Share (Deposits) (%)	0.7	1.0	1.0
Gross Infection (%)	8.0	8.4	13.4
Provisioning Coverage (%)	71.8	66.6	53.2
Net Infection (%)	2.4	3.0	6.7
Cost of deposits (%)	4.6	6.2	6.2
Net NPLs to Tier-1 Capital (%)	16.4	24.9	51.4
Capital Adequacy Ratio (C.A.R (%))	14.5	14.2	12.0
Markup Spreads (%)	3.6	3.3	2.8
Efficiency (%)	91.9	91.8	68.3
Basic ROAA (%)*	0.3	0.3	1.2
ROAA (%)	0.3	0.2	-0.1
ROAE (%)	3.9	2.5	-0.7
Liquid Assets to Deposits & Borrowings (%)	40.4	45.9	48.9
***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.

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	see table below
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-Jun-16	A	A-1	Rating Watch Developing	Maintained
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