RATING REPORT

Al-Baraka Bank (Pakistan) Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A	A-1
Outlook	Stable		Rating Watch-Developing	
Sukuk (Rs. 2b)	A (Preliminary)		N/A	
Date	*May 17, 2017*		*June 30, 2016*	

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: 57.4%	**Chief Executive Officer:** Mr. Shafqaat Ahmed
Islamic Corporation for the Development of the private Sector: 11.85%	
Mal Al Khaleej Investment LLC: 11.5%	
Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi: 7.5%	

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

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) has presence in more than 15 countries and has a strong franchise in the area of Islamic banking.

Profile of Chairman

Mr. Adnan Ahmed Yousif, serves as the Chairman of the Board. Mr. Yousif's experience spans over 38 years in international banking and is also currently serving as chairman of several Islamic Banks in Middle East.

Profile of CEO

Mr. Shafqaat Ahmed, possesses more than 42 years of banking experience in the domestic and international banking industry. Mr. Ahmed is a Fellow of the Institute of Bankers, Pakistan

RATING RATIONALE

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). In Nov'2016, Burj Bank Limited (BBL) merged its operations with ABPL under the name of Al Baraka Bank (Pakistan) Limited.

Rating Drivers

- **Sponsor Support:** A key rating driver to the assigned ratings is ABPL association with the Al-Baraka Banking Group (ABG); a prominent Islamic Banking Group having diversified operations in 15 countries. Standalone ratings of ABPL have been notched up to account for sponsor support to arrive at the assigned ratings. The Islamic International Rating Agency (IIRA) and Dagong Global Credit Rating Company Limited have jointly assigned ratings of BBB+/A3 (Triple B Plus/A Three) to ABG on the international scale. IIRA has also assigned ratings of BBB-/A3 (Triple B Minus/A Three) to Al Baraka Islamic Bank B.S.C., the major sponsor, on the international scale.
- **Financings:** Post-merger, financing mix has improved with portfolio now comprising a healthy mix of corporate, consumer and commercial & SME lending. Moreover, counterparty concentration (excluding government exposures) in the portfolio has witnessed a noticeable improvement over the last two years. Non-performing financings (NPFs) inherited from BBL and further accretion of NPFs in ABLP's own loan book has increased the level of infection while provisioning coverage has declined. FSV benefit availed by the bank was sizeable. The bank seeks to gain potential upside from recovery of non-performing exposures, and is actively mobilizing efforts for recoveries of Non-performing financings.
- **Liquidity:** Deposit base of the Bank increased to Rs. 105.8b (2015: Rs. 71.6b). However, with shedding of high cost FI deposits, decline was noted at end-1Q17. Resultantly, deposit mix has showcased improvement with proportion of CA and CASA in deposit mix increasing to 25% and 73%, respectively at end-1Q17. Moreover, depositor concentration levels have reduced by almost half during the last 2 years. Liquid assets in relation to deposits & borrowings have declined on a timeline basis but remain at adequate levels.
- **Capitalization:** Net equity of the bank increased to Rs. 11.4b at end-Dec'2016 while MCR eligible capital increased to Rs. 10.8b. Capital Adequacy Ratio of the bank was reported at 10.26% at end-Dec'2016. ABPL is in the process of issuing a Rs. 2b Basel 3 tier-2 compliant Sukuk which will allow the Bank room to increase risk weighted assets. Subsequent to issuance of the Tier-2 Sukuk, CAR of the bank is projected to increase to 12%. Equity injection from sponsors for realizing planned growth has been incorporated in the ratings. Net-NPFs in relation to tier-1 equity is on the higher side and reduction in the same is considered important.
- **Profitability:** Quantum of operating losses of the bank has reduced, while ABPL posted marginal profits in 1Q17. Improvement in profitability is on the back of significant reduction in cost of deposits during 1Q17. The management has also undertaken cost reduction initiatives including consolidation of branches which alongwith synergies from the merger are expected to result in significant expense savings. Impact of the same will be reflected in the financial statements from 3Q17. Maintaining spreads at current levels while achieving projected volumetric growth and realizing budgeted cost savings is considered important for achieving targeted operating profitability levels. Cost to income ratio of the bank will continue to be tracked by JCR-VIS, going forward.

FINANCIAL SUMMARY *(amounts in PKR millions) – Annexure I*

BALANCE SHEET	31-Dec-16	31-Dec-15	31-Dec-14
Investments	24,602	19,190	29,567
Islamic Financing & Other Assets	66,785	47,645	47,023
Total Assets	126,799	86,933	94,349
Borrowings	4,652	5,865	2,212
Deposits & other accounts	105,843	71,644	80,223
Subordinated Loans	1,429	3,757	3,105
Tier-1 Equity	7,457	7,103	5,661
Net Worth	11,390	6,300	5,901
INCOME STATEMENT	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Net Mark-up Income	2,363	2,478	2,170
Net Provisioning / (Reversal)	-164	-125	85
Non-Markup Income	874	656	727
Operating Expenses	3,414	2,849	2,546
Profit/ (Loss) Before Tax	-101	407	217
Profit / (Loss) After Tax	-156	240	146
RATIO ANALYSIS	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Market Share (Advances) (%)	1.3	1	1.1
Market Share (Deposits) (%)	0.9	0.7	1
Gross Infection (%)	10.1	8	8.4
Provisioning Coverage (%)	60.1	71.8	66.6
Net Infection (%)	4.4	2.4	3
Cost of deposits (%)	3.4	4.6	6.2
Net NPLs to Tier-1 Capital (%)	38.8	16.4	24.9
Capital Adequacy Ratio (C.A.R (%))	10.3	14.5	14.2
Markup Spreads (%)	3.7	3.6	3.3
Efficiency (%)	112.4	91.9	91.8
ROAA (%)	-0.2	0.3	0.2
ROAE (%)	-2.1	3.9	2.5
Liquid Assets to Deposits & Borrowings (%)	38.7	40.4	45.9

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/Sukuk

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
17-May-17	A+	A-1	Stable	Upgrade
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
RATING TYPE: SUKUK RATING				
17-May-17	A		Stable	Preliminary

Instrument Structure	Basel 3 compliant Tier 2 Sukuk to the tune of Rs. 2billion (inclusive of a green shoe option of Rs. 500million)
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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