



Rating Action

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ALBARAKA BANK INTENDS TO ACQUIRE BURJ BANK, RATINGS PLACED ON WATCH BY PACRA

AlBaraka Bank (ABPL) has shown its intention to acquire Burj Bank for which due diligence process has been in place since April 20, 2016. In recent development, both banks have passed related resolution in their respective shareholder's meetings (EOGM). It has been agreed that initially AlBaraka Islamic Bank, Bahrain (AIB), major shareholder of ABPL, will acquire a stake in Burj Bank against cash. After that, all the shareholders of Burj Bank will be issued ABPL's shares according to a swap ratio of 1: 1.7. The said share issuance by ABPL, would bridge the shortfall in MCR.

ABPL intends to improve its market position while benefiting from, i) Burj's deposit base as merged entity's market share in Islamic Banking Industry is expected to increase to 6.7% [ABPL 5.2% plus Burj 1.5%], ii) Burj's network of 74 branches (ABPL's current network: 150, Post-merger: 224) and iii) Burj's strength in consumer financing. In this context, ABPL's ratings [Entity; Long-term: "A", Short-term: "A1", Sukuk: "A"] have been placed on Rating Watch. PACRA would monitor the related development, and the ratings would be updated accordingly after reviewing the business strategy of the merged bank.

ABOUT ABPL: ABPL is currently operating with a network of 150 branches. AlBaraka Islamic Bank B.S.C., the majority shareholder (~65%) in ABPL, is a subsidiary (91%) of AlBaraka Banking Group (ABG). The Board constitutes seven representatives of sponsoring groups and three independent directors. Mr. Shafqaat Ahmed - the CEO - is a professional banker having a long association with ABG since 1992. He is assisted by an able team.

ABOUT BURJ: Burj an Islamic bank, operating with a network of 74 branches, has an equity of PKR 4.1bln with a CAR of 17.47% at end-Jun16. Burj Bank has long term and short term ratings of "BBB+" (BBB plus) and "A2" (A two), respectively, by JCR-VIS.

Applicable Criteria and Related Research

- Islamic Banking - Viewpoint | Feb-16
- Bank Rating Methodology

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