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Applicable Criteria

- Methodology | Basel III Compliant Debt Instruments (Mar18)

PACRA DISSEMINATED METHODOLOGY FOR RATING BASEL III COMPLIANT DEBT INSTRUMENTS OF BANKS

The Pakistan Credit Rating Agency has devised a rating methodology to rate Basel III compliant debt instruments, titled as “Basel III Compliant Debt Instruments”.

The methodology incorporates unique and respective criteria of Tier 1 and Tier 2 debt instruments. The salient criteria of Tier 1 and Tier 2 debt instruments that are considered crucial while forming a view on their ratings are derived from relevant regulations of SBP (BPRD 06, dated August 15, 2013). PACRA believes that the rating of Tier 1 and Tier 2 debt instruments is based on the futuristic performance of the issuer. It is not merely a rating of the structure of the debt instruments. The bank’s management and their plans play a crucial role in the sustainability of the risk profile of the instrument.

Our methodology takes cue from international and regional methodologies of similar nature. As per the stated methodology, entity rating of a bank and Tier 2 TFC rating cannot be equated except in case of AAA institution. At the same time, the minimum notch-down for a Tier 1 instrument is two notches whereas, it is one notch for Tier 2 instrument. In light of this, the following outstanding rating opinion is harmonized as under.

Instrument	New (06-Jun-18)	Previous (29-Dec-17)
AlBaraka Bank (Pakistan) Limited Sukuk (first issue of Tier 2)	A- *	A

* Downgradation on account of harmonization

ABPL is currently operating with a network of 188 branches (end-Dec17). AlBaraka Islamic Bank B.S.C., Bahrain the majority shareholder (~59%) in ABPL, is a subsidiary (91%) of AlBaraka Banking Group (ABG). The Board constitutes six representatives of sponsoring groups and four independent directors. Mr. Ahmed Shuja Kidwai - the CEO - is a professional banker having a long association with ABG. Mr. Nadeem Amjad Khan is Deputy CEO; he has been with the group for the last two decades. The management team comprises experienced professionals.

ABPL issued an unsecured, subordinated and privately placed Sukuk of PKR 2,000mln. The Sukuk (issued in Sep14) has tenor of 7 years, with profit shared among sukuk holders on 6MK+125bps basis. The principal repayments are being made semi-annually. Sukuk having right to redeem prior to maturity, subject to SBP’s approval, carries a lock-in clause and is also subject to loss absorbency. Current CAR at 10.2 % (end-Dec16; 10.3%) provides limited cushion against the requirement.

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