The Pakistan Credit Rating Agency Limited

ALBARAKA BANK (PAKISTAN) LIMITED

	New [Jun-17]	Previous [Jun-16]
Sukuk	A-	A
Outlook	Stable	Stable

Report contents

June 2017

Profile &Ownership

- AlBaraka Islamic Bank B.S.C. (c) (ABIB), through its Pakistan branches started its operations in Pakistan in 1991. However, after acquisition of ~50% shares of Emirates Global Islamic Bank Limited (EGIBL) by ABIB, Pakistan Branches of ABIB were merged with and into EGIBL during October 2010 to form ABPL.
- During CY16, ABPL acquired Ex-Burj Bank Limited (Burj) and merged entity started operations effective from November1st, 2016.
- ABPL offers a wide range of Shariah compliant products and services.
- ABPL operates through a network of 206 branches as at end-March 17.
- Major shareholders of ABPL are ABIB (~57%), Islamic Corporation for the development of the Private Sector (ICD) (12%), Al Rajhi investment group (~12%), Emirates Investment Group (~8%) and Mr. Muhammad Umar Ijaz (3%).

Governance

- Currently the Board comprises ten-members including the CEO.
- Four Board members, including CEO, represent AlBaraka Banking Group, one ICD, and one Al Rajhi Investment Group, one minority shareholders representative, whereas three board members are independent.
- Mr. Adnan Ahmed Yousif, CEO ABG, is the Chairman of the Board.
- The Board comprises qualified and experienced professionals; majority from banking industry.

Management

- Mr. Shafqaat Ahmed; CEO is a professional banker with more than four decades of experience. He has been associated with AlBaraka Group since the start of ABIB's branch operations in Pakistan.
- Three members shariah Committee comprises leading scholars qualified from prestigious Islamic institutions.

Risk Management

- During CY16, total assets exhibited an increase of 37% on account of increased investments in govt. securities.
- Post-merger NPLs increased to PKR 7bln although majority is provided. NPLs to gross advances ratio exhibited an inclining trend (CY16: 10%, CY15: 8%).
- Investment portfolio consists of 95% government backed Sukuk.

Performance

- During CY16, ABPL posted an increase of 3.3% (CY15: 3.6%; CY14: 3.3%) in its spreads. Although decrease in asset yield is witnessed, but efficient cost management has nullified that effect.
- Marginal increase in other income and provisioning reversals was nullified by the increased administration cost and turned bottom line in to loss of PKR 156mln (CY15: PKR240mln; CY14: PKR 146mln).
- During 1QCY17, owing higher earning assets ABPL's net revenue experienced an increase. This resulted in pre-provision profit of PKR 25mln. However, provisioning expense of PKR24mln translated in to a nominal profit of PKR 1mln.
- Going forward, ABPL is focusing on improved spreads through targeting new segments and effective cost control. On the investment banking side, new devised strategies will be formulated to enhance non-fund based revenue as well.

Capital and Funding

- ABPL has maintained its focus on individual and corporate customer deposits 68% and 21% respectively. The share of CASA in the total deposits has decreased (Dec-16; 77%; Dec-15: 75%; Dec-14: 63%).
- Post-merger, ABPL is able to meet minimum capital requirement of PKR 10bln (end-Mar17: PKR 10.8bln; end-Dec16: PKR 10.8bln; end_Dec15: PKR 8bln), whereas CAR stands at 10.3% as at end-Dec16 (Dec15: 14.5%).
- Cushion to loss absorbency, currently adequate, may get squeezed if the bank's capital augmentation plan (through another Tier 2 Sukuk amounting PKR 2bln) takes longer. Issuance is pending upon regulatory approvals.

RATING RATIONALE

The ratings reflect ABPL's association with AlBaraka Banking Group – a strong Middle Eastern banking institution. The sponsor had committed with SBP to provide support in meeting regulatory capital requirement of its subsidiary in a phased manner. During CY16, acquisition of Ex-Burj Bank concluded favourably to bridge MCR gap. However the bank's CAR as of Mar17 stands at 10.1%, which is an indication of squeezed cushion to loss absorbency. The CAR is expected to improve post-issuance of Tier II Capital (Sukuk).

ABPL witnessed improvement in net spread on account of lower cost of deposit as ABPL shed high-cost deposits. Post-merger increased operational cost led ABPL to report negative bottom-line. At the same time, non-performing portfolio inherited from Ex-Burj yet created a drag on asset quality with potential impact on equity. A sizeable book of GoP securities in the investment portfolio helped maintaining adequate liquidity. Going forward, the management aims low cost deposit mix and cautious credit growth, in turn, better profits. Success in planned initiatives is crucial.

KEY RATING DRIVERS

Effective implementation of business strategy, particularly in the back drop of challenging operating environment and competitive banking landscape, is important. Moreover, improving diversification in revenue streams, particularly from non-fund based avenues and maintaining healthy asset quality are important for bottom-line performance. The bank needs to improve its Tier I capital.

SUKUK

ABPL has 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 semiannually on 6MK+125bps basis. Sukuk carries right to redeem prior to maturity with SBP approval, a lock-in clause and is also subject to loss absorbency. Cushion to loss absorbency, currently adequate, may get squeezed if the bank's capital augmentation plan (either through merger or fresh injections) takes longer.

AlBaraka Bank (Pakistan) Limited

BALANCE SHEET	31-Mar-17 3MCY17	31-Dec-16 CY16	31-Dec-15 CY15	31-Dec-14 CY14
Earning Assets				
Advances	65,999	63,944	46,506	45,658
Debt Instruments	2,223	2,227	1,192	1,258
Total Finances	68,222	66,171	47,697	46,916
Investments	25,832	22,375	16,166	17,945
Others	355	3,677	3,392	13,747
	94,409	**92,223**	**67,256**	**78,608**
Non Earning Assets				
Non-Earning Cash	7,014	18,725	10,847	6,465
Deferred Tax	2,970	2,873	1,392	1,541
Net Non-Performing Finances	2,974	2,841	1,139	1,723
Fixed Assets & Others	9,844	10,137	6,298	6,012
	22,803	**34,576**	**19,676**	**15,741**
TOTAL ASSETS	**117,212**	**126,799**	**86,932**	**94,348**
Interest Bearning Liabilities				
Deposits	92,007	105,843	71,644	80,223
Borrowings	8,860	4,652	5,865	5,317
	100,866	110,495	77,509	85,539
Non Interest Bearing Liabilities	5,099	4,914	3,150	2,908
TOTAL LIABILITIES	**105,965**	**115,409**	**80,659**	**88,447**
EQUITY (including revaluation surplus)	**11,247**	**11,390**	**6,273**	**5,901**
Total Liabilities & Equity	**117,212**	**126,799**	**86,932**	**94,348**

INCOME STATEMENT	31-Mar-17 3MCY17	31-Dec-16 CY16	31-Dec-15 CY15	31-Dec-14 CY14
Profit / Return Earned	1,645	5,158	6,269	6,683
Return Expensed	(744)	(2,795)	(3,791)	(4,513)
Net Revenue	**901**	**2,363**	**2,478**	**2,170**
Other Income	359	874	656	727
Total Revenue	**1,260**	**3,237**	**3,135**	**2,896**
Admin and Other Expenses	(1,234)	(3,502)	(2,854)	(2,594)
Pre-provision Operating Profit	25	(265)	281	302
Provisions	(24)	164	125	(85)
Pre-tax profit	1	(101)	407	217
Taxes	(0)	(55)	(166)	(71)
Net Income / (Loss)	**1**	**(156)**	**240**	**146**

Ratio Analysis	31-Mar-17 3MCY17	31-Dec-16 CY16	31-Dec-15 CY15	31-Dec-14 CY14
Performance				
ROE	0.0%	-1.8%	3.9%	2.5%
Cost-to-Total Net Revenue	100.8%	108.3%	91.6%	89.7%
Provision Expense / Pre Provision Profit	96.2%	62.0%	-44.6%	28.2%
Capital Adequacy				
Equity/Total Assets	9.4%	8.7%	7.2%	6.4%
Capital Adequacy Ratio as per SBP	10.1%	10.3%	14.5%	14.2%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	35.8%	43.6%	38.9%	37.3%
Advances / Deposits	75.0%	63.1%	66.5%	58.6%
CASA deposits / Total Customer Deposits	77.1%	74.7%	75.3%	62.6%
Intermediation Efficiency				
Asset Yield	8.0%	6.6%	8.6%	8.8%
Cost of Funds	3.3%	3.0%	4.6%	5.5%
Spread	4.7%	3.6%	4.0%	3.4%
Outreach				
Branches	206	224	135	130

CREDIT RATING
SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

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Regulatory and Supplementary Disclosure

Name of Issuer	AlBaraka Bank (Pakistan) Limited
Name of Issue	AlBaraka Bank (Pakistan) Limited | Sukuk |Sep -14
Sector	Banking
Type of Relationship	Solicited
Purpose of the Rating	Regulatory Requirement Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Outlook	Action
22-Sep-16	A	Stable	Rating Watch
25-Jun-16	A	Stable	Maintain
26-Jun-15	A	Stable	Maintain
25-Sep-14	A	Stable	Initial
13-Jun-14	A	Stable	Preliminary

Instrument Detail

Nature of Instrument	Size of Issue (PKR mln)	Tenor (yrs)	Security Details	Trustee
Sukuk	200,000	7	Subordinate Unsecured privately placed Sukuk	Pak Brunei Investment Company

Redemption Schedule
Attached Annexure

Applicable Criteria and Rekated Reseach
Banking Rating Methodology
Islamic Banking - Viewpoint | Feb-17

Rating Analysts

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Rating Team Statement

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