The Pakistan Credit Rating Agency Limited

Rating Report

AlBaraka Bank (Pakistan) Limited | Sukuk | Sep-14

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2021	A-	-	Stable	Maintain	-
26-Jun-2020	A-	-	Stable	Maintain	-
27-Dec-2019	A-	-	Stable	Maintain	YES
28-Jun-2019	A-	-	Stable	Maintain	YES
31-Dec-2018	A-	-	Stable	Maintain	YES
29-Jun-2018	A-	-	Stable	Harmonize	-
29-Dec-2017	A	-	Stable	Maintain	-
30-Jun-2017	A	-	Stable	Maintain	-
22-Sep-2016	A	-	Developing	Maintain	-
25-Jun-2016	A	-	Stable	Maintain	-
26-Jun-2015	A	-	Stable	Maintain	-
25-Sep-2014	A	-	Stable	Initial	-
13-Jun-2014	A	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect AlBaraka Bank (Pakistan) Limited's (ABPL) association with AlBaraka Banking Group (ABG) – a strong Middle Eastern banking institution and continued strong support from the major sponsor of the Bank. ABPL displayed considerable resilience to turn in a good performance for CY20. ABPL has largely managed to improve its revenue. This growth is attributable mainly due to low-cost deposit mobilization, deceleration in interest expenses and rise in non-interest income. A sizeable book of GoP securities in the investment portfolio and a remarkable growth in the customer deposit base of the Bank helped in maintaining adequate liquidity. Going forward, the management aims low-cost deposit mix and cautious credit growth, in turn, better profits. The focus of the Bank is to build high quality and well-diversified financing portfolio. The Bank conservatively took on an increased level of provisions in order to bolster the asset quality of its financing assets. There was a significant improvement in the profitability of the bank during CY20 as the Bank has closed some of its non-performing branches. The Bank has achieved before and after-tax profitability after incurring losses over the years and is fully compliant with the capital adequacy regime. ABPL has provided a moratorium to its borrowers, in line with the relief measure provided by the State Bank of Pakistan (SBP).

COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge.
Effective implementation of business strategy, particularly in the backdrop of a challenging operating environment and competitive banking landscape, is important. Pivotal to this strategy is maintaining profitability on a sustained basis and hence the generation of internal capital. Improving diversification in revenue streams, particularly from non-fund based avenues and maintaining healthy asset quality are important for bottom-line performance.

Disclosure

Name of Rated Entity	AlBaraka Bank (Pakistan) Limited | Sukuk | Sep-14
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | DI Basel III(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Commercial Bank(Jun-21)
Rating Analysts	Timnat Thomas | timnat.thomas@pacra.com | +92-42-35869504

Issuer Profile

Profile AlBaraka Bank (Pakistan) Limited ("ABPL" or the "issuer"), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 2010. The Bank is mainly engaged in the Islamic banking business in Pakistan in accordance and in conformity with Shariah. The Bank, with its head office in Karachi, operates with a network of 178 branches including 6 sub-branches as at end-Mar21.

Ownership Major shareholders of ABPL are ABIB (59.13%), Islamic Corporation for the Development of the Private Sector (ICD) (11.85%), Mal Al Khaleej Group (11.53%), Sheikh Tariq Bin Faisal Khalid Al Qassem (7.5%). AlBaraka Islamic Bank B.S.C. (c) (ABIB) – a 92% owned subsidiary of AlBaraka Banking Group (ABG), is a member of Dallah AlBaraka Group (DBG) – a Saudi-based conglomerate - one of the leading privately-owned enterprises in the Middle East. The Group provides ABPL with international expertise and strategic direction through its strong presence on the Board.

Governance Overall control of the Bank vests in the eleven-member Board of Directors (BoD), including the CEO. Six of the board members are ABG nominees, one each from ICD and Mal Al Khaleej Investments, whereas the other three are independent members. The members are seasoned bankers and are also nominated on boards of respective groups' companies. There are five board committees in place which help the board ineffective oversight of the Bank's overall operations on relevant matters. EY Ford Rhodes Chartered Accountants are the External Auditors of the Bank who expressed an unqualified opinion on the Bank's financial statements for the year ended Dec 31, 2020.

Management The Bank has formed, besides the shariah committee, 9 committees at the management level for the effective and smooth functioning of each business segment. The CEO & President, Mr. Ahmed Shuja Kidwai, is a seasoned banker with rich banking experience. He is supported by a team of experienced professionals. The Bank has also established risk management systems, considering the growth targets of the Bank. The management has designed a risk management manual, policies and risk appetite statement. The management also has a disaster recovery site is in place to ensure uninterrupted banking operations in the event of a disaster.

Business Risk The indicators of the banking sector reflected a mixed trend where the economy is recovering from the effects of the COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to the COVID-19 outbreak, the banking sector managed to grow at a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid the COVID-19 pandemic outbreak. The policy measures rolled out by the SBP enabled the sector to enhance profitability, improve resilience and limit the credit risk. With the completion of the deferment period allowed, the aftermath is yet to be comprehended by the industry. ABPL, a small-sized bank, has a customer deposits base of PKR 148.4bln at end-Dec20, holding less than 1% share of the industry. During 3MCY21, customer deposits decreased by 2.0%. The Bank is focusing on increasing its non-funded income along with a cautious approach in growing its financing portfolio in order to enhance its revenue stream, going forward. However, the ability to manage the asset quality of trade finance will be critical for ABPL's profitability under the current circumstances. Moreover, the management intends to maintain sufficient liquidity while improved the mobilization of low-cost deposit.

Financial Risk During CY20, the gross mark-up income of the Bank witnessed an increase of 8.7% and was recorded at PKR 14.1bln (CY19: 12.9bln) mainly due to the major chunk increasing by 39.8% in income on borrowings from financial institutions. The non-markup income of the Bank increased by 31.9% YoY, clocking in at PKR 1.9bln (CY19: PKR 1.4bln) mainly on account of an increase in income from dealing in foreign currencies and gain on securities. However, during 1QCY21, the Bank witnessed a decrease of 22.1% to PKR 3.2bln (1QCY20: 4.1bln) in its gross mark-up income; due to a reduced policy rate. ABPL reported a PAT of PKR 764mln in CY20 as compared to last year loss of PKR 192mln. With a focus on non-funded income from trade and advisory services, the Bank was able to book a PAT of PKR 373mln for 1QCY21; grew by 67.3% YoY basis. ABPL's investment portfolio comprises 35.1% of total earning assets. Investments of the Bank - amid weaker demand for advances and abundant liquidity - surged by PKR 33.6bln during CY20. ABPL's customer deposit base surged by 20.0%, supported by low-cost current account and savings account (CASA) deposits and the average CASA ratio was 67.2% for CY20. The equity of the Bank increased by 2.4% to PKR 13.3bln (CY20: PKR 13.0bln) during 3MCY21 due to the accumulation of profits and rise in reserves. ABPL's Capital Adequacy Ratio (CAR) stood at 12.7% and predominantly comprises Tier-I capital at 11.1%.

Instrument Rating Considerations

About The Instrument ABPL issued an unsecured, subordinated, and privately placed Sukuk ("Sukuk" or the "Issue" or "Instruments"). The issue amounts to PKR 2bln. The tenor of the instrument is 7 years. The profit rate is 6 Month KIBOR + 1.25%. The profit is being paid semiannually in arrears on the outstanding principal amount. The amount raised through this Sukuk will enhance ABPL's cushion in capital adequacy and maintain a planned growth in advances. The Sukuk holders, under the Islamic principle of Modaraba, would be part of the Gross Income Pool. The profit or loss, generated by the pool, are distributed between the Sukuk holders and other members of the pool as per the agreed parameters.

Relative Seniority/Subordination Of Instrument The instrument is unsecured and subordinated as to the payment of principal and profit to all other indebtedness of ABPL, including deposits. In addition, the Sukuk is subject to the lock-in clause i.e. the profit payment to the Sukuk holders will be subject to the condition that any such payment should not result in the non-compliance with the applicable regulatory requirement of MCR, CAR and leverage ratio (LR) as determined by SBP from time to time. Any inability to exercise the lock-in clause or non-cumulative feature will subject these Sukuk certificates to mandatory conversion into common shares at the discretion of SBP.

Credit Enhancement The Instrument is unsecured.

PKR mln

AlBaraka Bank (Pakistan) Limited Unlisted Public Limited	Mar-21 3M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Total Finances - net	99,875	91,178	76,036	76,144
2 Investments	56,875	53,783	20,199	17,953
3 Other Earning Assets	5,939	8,389	16,968	1,102
4 Non-Earning Assets	31,761	37,028	45,376	31,354
5 Non-Performing Finances-net	2,440	2,436	3,404	2,261
Total Assets	196,891	192,814	161,982	128,813
6 Deposits	154,685	159,364	129,654	99,915
7 Borrowings	16,167	8,897	7,739	7,582
8 Other Liabilities (Non-Interest Bearing)	12,701	11,523	11,858	10,611
Total Liabilities	183,553	179,784	149,251	118,108
Equity	13,337	13,029	12,732	10,705
B INCOME STATEMENT				
1 Mark Up Earned	3,155	14,052	12,923	8,032
2 Mark Up Expensed	(1,553)	(7,676)	(7,912)	(3,872)
3 Non Mark Up Income	565	1,886	1,430	1,154
Total Income	2,166	8,262	6,441	5,314
4 Non-Mark Up Expenses	(1,370)	(5,516)	(5,243)	(4,789)
5 Provisions/Write offs/Reversals	(179)	(1,208)	(1,190)	(770)
Pre-Tax Profit	618	1,538	8	(245)
6 Taxes	(245)	(774)	(199)	(9)
Profit After Tax	373	764	(192)	(254)
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.3%	3.6%	3.4%	3.3%
Non-Mark Up Expenses / Total Income	63.2%	66.8%	81.4%	90.1%
ROE	11.3%	5.9%	-1.6%	-2.4%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	6.8%	6.8%	7.9%	8.3%
Capital Adequacy Ratio	12.7%	12.9%	13.3%	11.8%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	42.9%	47.4%	35.9%	31.3%
(Advances + Net Non-Performing Advances) / Deposits	64.3%	56.6%	58.2%	75.1%
CA Deposits / Deposits	22.1%	24.3%	20.4%	24.1%
SA Deposits / Deposits	45.4%	43.0%	43.7%	51.9%
4 Credit Risk				
Non-Performing Advances / Gross Advances	9.1%	9.8%	11.4%	8.8%
Non-Performing Finances-net / Equity	18.3%	18.7%	26.7%	21.1%

Credit Rating

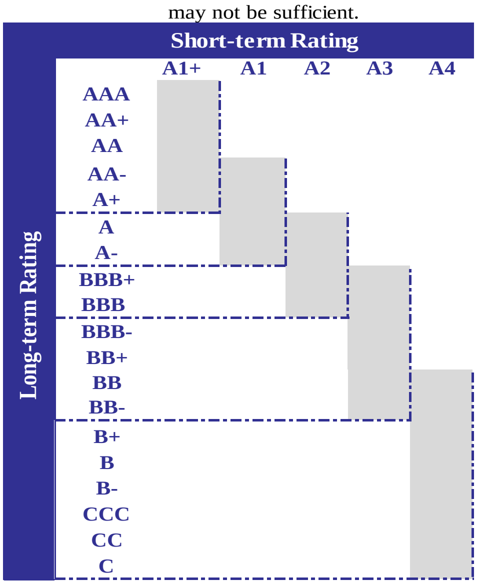
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
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Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Sukuk	2,000 mln	7 years	Unsecured and subordinated to all other obligations of the bank	N/A	N/A	Pak Brunei Investment Company Limited	N/A

Name of Issuer	Al Baraka Bank (Pakistan) Limited
Issue Date	22-Sep'14
Maturity	21-Sep-21
Option	N/A

Due Date Principle	Opening Principal	Principal Repayment	Due Date Markup/ Profit	6M Kibor	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln				PKR in mln		
Issuance							2,000
26-Mar-15	2,000	143	6 M KIBOR + 1.25%	10.18%	114	257	1,857
26-Sep-15	1,857	143	6 M KIBOR + 1.25%	7.96%	86	228	1,714
26-Mar-16	1,714	143	6 M KIBOR + 1.25%	6.60%	67	210	1,571
26-Sep-16	1,571	143	6 M KIBOR + 1.25%	6.36%	60	203	1,429
26-Mar-17	1,429	143	6 M KIBOR + 1.25%	6.05%	52	195	1,286
26-Sep-17	1,286	143	6 M KIBOR + 1.25%	6.13%	47	190	1,143
26-Mar-18	1,143	143	6 M KIBOR + 1.25%	6.17%	42	185	1,000
26-Sep-18	1,000	143	6 M KIBOR + 1.25%	6.56%	39	182	857
26-Mar-19	857	143	6 M KIBOR + 1.25%	8.50%	42	185	714
26-Sep-19	714	143	6 M KIBOR + 1.25%	11.01%	44	187	571
26-Mar-20	571	143	6 M KIBOR + 1.25%	13.96%	43	186	429
26-Sep-20	429	143	6 M KIBOR + 1.25%	13.96%	33	175	286
26-Mar-21	286	143	6 M KIBOR + 1.25%	13.96%	22	165	143
26-Sep-21	143	143	6 M KIBOR + 1.25%	13.96%	11	154	0
		2,000			**702**	**2,702**	