

## RATINGS (JUNE 2011)

### ALBARAKA BANK (PAKISTAN) LIMITED (ABPL) [FORMERLY EMIRATES GLOBAL ISLAMIC BANK LIMITED]

	New	Previous
<b>Entity</b>		
Long Term	A	A
Short Term	A1	A2
Outlook	Positive	-

## FINANCIAL DATA

### PKR (MLN)

	Mar-11*	Dec-10	Dec-09
Total Assets	62,135	60,763	19,762
Equity	6,196	6,115	3,488
Net Income / (Loss)	80	(953)	(542)
Equity/Total Assets (%)	9.9	10.1	17.6
ROA (%)	0.52**	-2.37	-2.99
ROE (%)	5.23**	-19.85	-14.39
SBP CAR (%)	15.2	15.8	25.5

\*Based on unaudited accounts for three months

\*\* Annualized

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## RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect AlBaraka Bank's association with a strong Middle Eastern banking group – AlBaraka Banking Group. The ratings incorporate the impact of positive synergies emanating from the recent merger (between Emirates Global Islamic Bank and Pakistan branches of AlBaraka Bank) in terms of common operating platform, improved profile, and extended market outreach. While swiftly progressing the integration process, the management is well geared to benefit from the expanded franchise by implementing a sound business plan.
- The ratings are assigned a positive outlook recognizing the benefits to accrue from improved ownership structure and implementation of the bank's growth strategy. However, the management's ability to establish profitable business while restraining high cost structure is challenging. The efficacy of the risk management framework aimed at improving the overall asset quality of the bank, which is currently constrained, remains important.

## ASSESSMENT

▪ The macroeconomic landscape of Pakistan remains uncertain. Although a few indicators have improved as reflected in current account surplus of the country, prolonged energy crisis, stubborn inflationary pressure and burgeoning fiscal imbalance continue to pose major challenges to economic growth. This is also reflected in continuing weakening in the asset quality of the banks. The pace of accumulation of NPLs has stalled lately, but it would be challenging for the banks to maintain asset quality amidst subdued business sentiments.

▪ Following the acquisition of ~50% shares of Emirates Global Islamic Bank Limited (EGIBL) by AlBaraka Islamic Bank (Bahrain) B.S.C. (ABIB), AlBaraka Islamic Bank B.S.C. (E.C.) [Pakistan Branches] was merged with and into EGIBL during October 2010. The merged entity was renamed AlBaraka Bank (Pakistan) Limited. Afterward, ABIB enhanced its stake to ~65% in AlBaraka Bank by end-Dec10. Upon merger, the bank issued a share capital of PKR 4,435mln, taking the total capital (net of loss) to PKR 6,115mln at end-Dec10. The bank has been granted exemption by SBP from standard Minimum Capital Requirement (MCR) regulations for a period of three years subject to maintaining (i) MCR (net of losses) of PKR 6.5bln in 2011, PKR 8bln in 2012 and PKR 10bln in 2013 and (ii) a CAR of 15% at all times till 2013 (15.17% as at end-Mar11). The bank plans to meet these conditions with a combination of phased equity injection and internal profitability.

▪ The deposit mix of ABPL, in terms of CASA deposits as percentage of total customer deposits, has remained largely the same as of Ex-EGIBL (Mar-11: 47%; Dec-09: 45%). The non-performing portfolio – largely inherited from EGIBL – has registered a considerable increase. Nevertheless, owing to the merger, advances portfolio observed a significant increase. Consequently, NPL as percentage of advances remained largely at the pre-merger level (Mar-11: 13.6%; Dec-09: 12.4%). Although fresh infection is anticipated, net addition in NPLs would remain limited, given higher probability of recovery in some accounts.

▪ The bank is taking steps to improve its performance as evident by its post-merger 1Q performance. During 1Q11, the bank was able to report higher net interest revenue, attributed to high yielding loan portfolio of Ex-ABIB (Branch Operations). Moreover, significant hike in income from dealing in foreign currency and stalled NPL provisioning led to a positive bottom line by end-Mar11.

▪ Going forward, the bank while planning to tap un-banked customers particularly in suburbs and rural areas is targeting a sizable growth in its deposit base mainly CASA. A gradual enhancement in the bank's outreach is also planned. On the financing side, the major emphasis would be on the mix change with more focus on commercial, SME, and agriculture. Surplus liquidity would be deployed in government backed securities. Meanwhile, comprehensive HR trainings and improvement in the customer services are on the management's agenda. At the same time, the bank is in the process of implementing Misys as its core banking software and plans to complete it by end-2012.

▪ ABPL's investment portfolio constitutes 35% of total assets at end-Mar11. The portfolio is heavily dominated by government securities – SBP Ijarah and WPADA Sukuk – signifying low credit and interest rate risk.

## PROFILE

▪ AlBaraka Bank (Pakistan) Limited (formerly Emirates Global Islamic Bank Limited) commencing its operations in February 2007, operates with a network of 89 branches. AlBaraka Islamic Bank B.S.C., the majority shareholder (~65%) in ABPL, is a majority owned (91%) subsidiary of AlBaraka Banking Group (ABG). ABG, incorporated in the Kingdom of Bahrain and a part of Dallah AlBaraka Group (DBG), is one of the largest Islamic banking and financial services institution in the world. ABG, with an asset base of US\$ 15.8bln at end-Dec10 and rated "BBB-" by Standard and Poor's, has an international network of 12 subsidiaries with 370 branches in 13 different countries in Asia, the Middle East, and Africa.

▪ The eleven members BoD constitutes representatives of sponsoring groups and three independent directors. Mr. Shafqaat Ahmed – the CEO – is a professional banker with over three decades of experience including a long association with AlBaraka Group.