

Burj Bank Limited

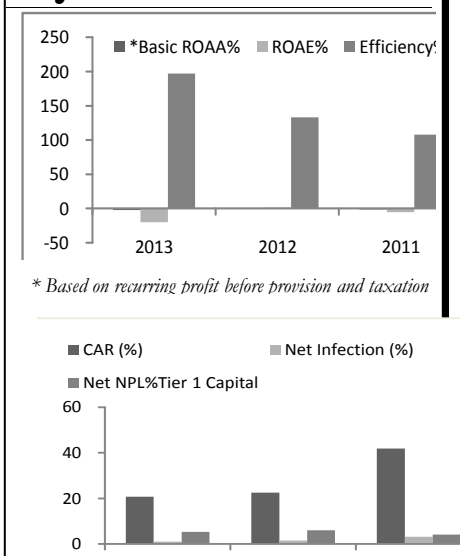
Chairman: Mr. Khaled Mohammad Al-Aboodi; CEO: Mr. Ahmed Khizir Khan

July 7, 2014

Analysts: Talha Iqbal
Moiz Badshah

Category	Latest	Previous
Entity	A/A-1 Jun 30, '14	A/A-1 Jun 28, '13
Outlook	Negative June 30, '14	Stable Jun 28, '13

Key Financial Trends



	Dec-13	Dec-12	Dec-11
Net Financings (Rs. in b)	29.0	23.4	12.4
Deposits (Rs.in b)	42.7	35.9	20.3
Deposit Cost (%)	7.39	9.7	9.0
Profit / (Loss) (Rs.in b)	(1.1)	0.08	(0.2)
Equity (Rs. in b)	5.3	5.9	5.8
CAR (%)	20.76	22.5	41.8
Liquid Assets % Deposits & Borrowings	43.0	49.6	57.17
Net Infection (%)	1.0	1.5	3.2

Rating Rationale

Net equity of Burj Bank Limited (Burj) at Rs. 5.2b is below the regulatory requirement of Rs. 10b stipulated by the State Bank of Pakistan (SBP). Equity injection in 2013 was insufficient to meet the regulatory requirement due to which SBP has maintained a floor of 18% on the bank's Capital Adequacy Ratio (CAR). Given the constraint of principle sponsors in injecting equity, the bank is in the process of pitching to potential investors to ensure compliance with regulatory requirements.

Operating loss of the bank increased by more than 3x to Rs. 1.2b (FY12: Rs. 401.3m) on account of pressure on spreads due to a 169 bases point decline in average KIBOR during 2013, growth constraints on account of floor on CAR and an increase in expense base on the back of various strategic initiatives taken by the bank. The bank has projected marginal profits for 2014 on the back of equity injection, planned cost rationalization and volumetric growth in earning assets. Achievement of the same may be challenging given the delay in equity injection and its impact on growth potential and earnings. In 1Q14, the bank has reported pre-tax loss of Rs. 228.9m.

SBP had required the bank to maintain a minimum CAR of 18%. In order to simultaneously manage the bank's growth needs and maintain compliance with the floor placed on CAR, the bank pursued growth in government/public sector which comprised almost one-fourth of gross financing at end-2013, where applicable risk weight is zero. Moreover, consumer financing was more than doubled to Rs. 5.7b; autos and mortgages attract risk weight of 75% and 35%, respectively. Given this change in portfolio mix, credit risk weighted assets were marginally lower on a year-on-year basis, despite healthy growth in gross financings. A notable increase in non-performing financings was reported in 2013; the bank has taken significant additional provisions against NPFs and provisioning coverage has been enhanced to almost 90% by end 1Q14. Given that growth in consumer financing is only recent, portfolio quality indicators in this segment will be meaningfully tested over time. As such, the bank has built necessary controls to address risks in the same.

Proportion of investment portfolio stood lower at 17% (2012: 36%) of the asset base on account of partial sale along with maturity of GoP Ijarah Sukuk. Risk emanating from the same is considered limited. Maturities of sizeable holding of bank's GoP Ijarah Sukuk fall due in the on-going year. In the absence of fresh issuances, deployment of the same in other asset classes might have an impact on the bank's CAR & yield. Investment in listed equities represented around one-tenth of the entire investment portfolio and 16% of the bank's own equity base. While exposures are primarily in blue chip stocks and are diversified, risk of volatility in the stock market remains.

Liquidity profile of the bank has weakened on a timeline basis with increase in deposit concentration levels and decline in liquid reserves in relation to deposits and borrowing. On a quarter on quarter basis, deposit mix has seen variation; proportion of CASA in deposit mix is low. In this regard, re-profiling of deposit base is being undertaken which is targeted to achieve reduction in deposit cost and improve depositor concentration levels.

Overview of the Institution

Burj Bank Limited was incorporated in Pakistan as an unlisted public limited company in 2005 to carry out business as an Islamic Commercial Bank in accordance with the principles of Islamic Shariah and commenced operations in 2007. Staff strength of the bank (including outsourced) fell to 1,159 (2012: 1,529) at end 2013. Financial statements of the bank were audited by M/s A.F.Ferguson & Company, Chartered Accountants for FY13 **JCR-VIS**

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: ENTITY</u>				
6/30/2014	A	Negative	A-1	Maintained
6/28/2013	A	Stable	A-1	Reaffirmed
6/29/2012	A	Stable	A-1	Maintained
9/5/2011	A	Stable	A-2	Upgrade
4/22/2011	A-	Stable	A-2	Upgrade
6/29/2010	BBB+	Stable	A-3	Downgrade