

Press Release

VIS Maintains Entity & Instrument Ratings of Al-Baraka Bank (Pakistan) Limited

Lahore, June 30, 2024: VIS Credit Rating Company Limited has maintained the entity ratings of Al Baraka Bank (Pakistan) Limited ('ABPL' or 'the Bank') at 'A+/A-1' (Single A Plus/A-One). Long-term rating of 'A+' denotes good credit quality and adequate protection factors; risk factors may vary with possible changes in the economy. Short-term rating of 'A-1' depicts high certainty of timely payment and excellent liquidity factors supported by good fundamental protection factors. Rating of the second issue of Tier II Sukuk has been maintained at 'A' (Single A), and the rating of the third issue of Tier II Sukuk has also been maintained at 'A' (Single A). Outlook on the assigned ratings has been revised from 'Stable' to 'Positive'. The previous entity and instrument ratings were announced on June 27, 2023.

The assigned ratings derive support from the sponsorship profile of the Al Baraka Group (ABG), a prominent Islamic Financial Group having diversified operations in 13 countries, which has been assigned 'BBB+/A3' (Triple B Plus / A Three) on the international scale by the Islamic International Rating Agency (IIRA). The management has taken certain initiatives including induction of senior human resource, enhancement of IT infrastructure and security, improvement in risk management policies and procedures, launching of comprehensive training programs, revamping of branch network, hiring of a consultant for the implementation of ESG framework and onboarding of the new team to take the bank forward.

The deposit base of the Bank increased during the rating review period with higher focus on current account and other low-cost funding sources to support net spreads; however, deposit concentration has room for improvement. Meanwhile, overall liquidity buffers exhibited improvement. Excess liquidity was channeled largely into government securities which dominated the Bank's investment portfolio; thus, the credit risk is considered minimal while market risk is also considered manageable given the low duration of the said portfolio. Meanwhile, the Bank has maintained a cautious approach to financing due to high policy rates and tough economic conditions resulting in decline in gross financing portfolio compared to Dec'22. While increase in gross infection was witnessed, net infection remained largely range bound due to considerable provision held against impairments.

Profitability metrics depicted marked improvement largely owing to uptick in spreads on the back of higher benchmark rates and mobilization of low-cost deposits and improvement in efficiency. ABPL remained fully compliant with regulatory requirements related to its capital structure with increasing trend in Capital Adequacy Ratio (CAR) mainly on the back of profit retention. The positive trend in operating performance will be tracked for further improvement in ratings, while maintaining strong capital buffers, going forward. The Bank's planned network expansion during the ongoing year may help support deposit growth. The ratings are dependent on perceptible improvement in the bank's overall risk profile including asset quality indicators while improving market share through growth in low-cost deposits and financing portfolio in a competitive operating environment.

For further information on this ratings announcement, please contact at 042-35723411-13 or email at info@vis.com.pk

Applicable rating criterion: Financial Institution

<https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf>

Applicable rating criterion: Rating the Issue

<https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.pdf>

VIS Issue/Issuer Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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