



Date

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Analyst

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Applicable Criteria

- Methodology | FI | Jun-20
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-20
- Criteria | Rating Modifier | Jun-20

Related Research

- Sector Study | Commercial Bank | Jun-21

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PACRA Maintains Entity Ratings of AlBaraka Bank (Pakistan) Limited

Rating Type	Entity	
	Current (25-Jun-21)	Previous (26-Jun-20)
Action	Maintain	Maintain
Long Term	A	A
Short Term	A1	A1
Outlook	Stable	Stable
Rating Watch	-	-

The ratings reflect AlBaraka Bank (Pakistan) Limited’s (ABPL) association with AlBaraka Banking Group (ABG) – a strong Middle Eastern banking institution and a 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 a 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 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 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.

About the Entity

ABPL is currently operating with a network of 178 branches. AlBaraka Islamic Bank B.S.C., Bahrain the majority shareholder (59.13%) in ABPL, is a subsidiary (92%) of AlBaraka Banking Group (ABG). The Board constitutes six representatives of sponsoring groups and three independent directors. Mr. Ahmed Shuja Kidwai - the CEO & President - is a professional banker having a long association with ABG. The management team comprises of experienced professionals.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.