

Press Release

VIS Upgrades Entity Ratings of Al Baraka Bank (Pakistan) Limited

Karachi, June 27, 2025: VIS Credit Rating Company Limited (VIS) has upgraded entity ratings of Al Baraka Bank (Pakistan) Limited ('ABPL' or 'the Bank') to 'AA-/A1' (Double A Minus/A One) from 'A+/A1' (Single A Plus/A One). Medium to long term rating of 'AA-' indicates high credit quality; protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions. Short term rating of 'A1' indicates strong likelihood of timely repayment of short-term obligations with excellent liquidity factors. The rating of ABPL's Basel III compliant Tier-2 Sukuk 2 has also been upgraded to 'A+' (Single A Plus). Outlook on the assigned ratings is 'Stable.' Previous rating action was announced on June 30, 2024.

The ratings assigned to Al Baraka Bank are supported by its improving financial risk profile and demonstrated sponsor support in prior years. ABPL's funding profile is characterized by a rising share of low-cost current and savings accounts. This contributed to favorable trends in cost of funds and supported net profit margins. Liquidity indicators remained sound, with LCR and NSFR comfortably above regulatory thresholds. The Bank also maintained a conservative investment strategy, with a predominant allocation to short-term sovereign instruments that offer minimal default and market risk.

The Bank's asset base expanded during the review period, reflected in growth in both advances and investments. The credit portfolio witnessed a marked increase, primarily driven by the corporate segment. While overall asset quality improved—evidenced by a decline in the gross and net infection ratios—the performance of certain segments remains under watch. However, the Bank's forward-looking provisioning under the IFRS-9 framework has contributed to a notable enhancement in coverage ratios, thereby strengthening its capacity to absorb credit losses.

The Bank posted an improvement in profitability, with both net spread and other income showing upward trends. Enhanced spreads, higher transaction volumes, and capital gains contributed to earnings, while expense growth was contained. ABPL's cost-to-income ratio, though slightly elevated recently, remains within manageable bounds. Future profitability may face mild compression due to rate cuts, but supportive elements such as growing fee-based income and optimized funding costs are expected to cushion the impact.

Capitalization remains a key strength, with the Bank reporting capital adequacy levels well above the minimum regulatory requirements. The high proportion of Tier-1 capital within the overall eligible capital provides room for further business expansion. Internal capital generation, backed by a stable earnings trajectory and prudent risk-weighted asset growth, supports a resilient capital structure.

ABPL benefits from the strategic backing of Al Baraka Islamic Bank B.S.C. (c), Bahrain, and ultimately the Al Baraka Group, a diversified Islamic financial services group. This affiliation provides the Bank with access to capital, technical expertise, and regional market presence, reinforcing its overall credit profile. The regional connectivity between franchises is especially notable in expanding business outreach of the Bank. The parent entities hold favorable credit and fiduciary ratings, with a well-established reputation in Islamic finance, thereby lending credibility and strength to ABPL's operations in Pakistan.

ABPL demonstrates a strong commitment to Shariah governance, guided by an eminent Shariah Board. The Bank has instituted Shariah controls through its Shariah Compliance and Advisory Department, ensuring adherence to the Shariah Governance Framework issued by the State Bank of Pakistan (SBP). All products, policies, and processes undergo comprehensive Shariah review and approval, while regular audits and training programs reinforce compliance across operations. The issuance of annual Shariah compliance reports and proactive guidance on emerging issues underscore ABPL's dedication to maintaining ethical, transparent, and Shariah-compliant banking practices.

Strategically, the Bank continues to invest in digitalization and customer experience enhancement. Progress in digital banking, cybersecurity, and product innovation underlines management's forward-looking approach. Additionally, efforts in environmental, social,

and governance (ESG) domains—through policy integration and community initiatives—reflect a broadening focus on sustainable banking.

The ratings are contingent upon sustained credit discipline, capital strength, and effective strategic execution in a dynamic operating landscape.

For further information on this rating announcement, please contact at 021-35311861-64 or email at info@vis.com.pk.

Applicable Rating Criteria:

Financial Institution

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

VIS Issue/Issuer Rating Scale

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

Information herein was obtained from sources believed to be accurate and reliable; however, VIS Credit Rating Company Limited (VIS) does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s)/ranking(s) mentioned in this report. VIS is paid a fee for most rating assignments. This rating/ranking is an opinion and is not a recommendation to buy or sell any securities. Copyright June 27, 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.