

# Press Release

## VIS Reaffirms Entity Ratings of Al-Baraka Bank (Pakistan) Limited

**Karachi, June 27, 2020:** VIS Credit Rating Company Limited has reaffirmed the entity ratings of Al-Baraka Bank (Pakistan) Limited (ABPL) 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 while risk factors are minor. Rating of the outstanding Tier II Sukuk (issued in August 2017) amounting to Rs. 1.5 billion has also been reaffirmed at 'A' (Single A). Outlook on the assigned ratings is 'Stable'. The previous entity rating action was announced on June 28, 2019.

The assigned ratings incorporate improvement in profitability and liquidity profile of the Bank while ABPL has achieved compliance with regulatory Capital Adequacy Ratio requirement due to capital fund by the major sponsor. Ratings are constrained by weak asset quality indicators, elevated exposure to credit risk due to deteriorating macroeconomic indicators & sizeable slowdown expected in GDP growth due to impact of Covid-19 and room for improvement in deposit concentration and mix. In line with VIS's credit rating criteria, strong profile of sponsor has been incorporated in the standalone ratings of ABPL. Continuity of strong sponsor support will remain an important rating consideration.

ABPL pursued a conservative lending strategy in 2019 with growth in financing portfolio largely manifested in corporate (sovereign, low risk weight and cash backed exposures) and consumer segment while CBSME portfolio declined. While financing mix is diversified, asset quality indicators remain weak as reflected by high net infection and low provisioning coverage due to sizeable FSV benefit availed by the Bank. Regulatory relief measures undertaken by SBP to promote financial stability, ensure continued credit supply to the economy and maintain confidence in the banking system have been received positively and are expected to delay the impact of prevailing headwinds on portfolio asset quality indicators. However, exposure of banking sector to credit risk is elevated due to significant impact of Covid-19 on already weak macroeconomic indicators. Our credit impairment expectations are conservative, albeit there is a probability of deviation from expectations; downside risk is elevated, amidst an uncertain economic environment. VIS will continue to closely monitor the bank's performance metrics on quarterly basis where compliance with communicated rating benchmarks for net infection, Net NPLs to Tier 1 equity and CAR buffers is important.

The Bank recorded healthy growth of 30% in deposits during 2019. Given the decline in ADR, liquidity buffer on the balance sheet has strengthened. Given the current liquidity buffers and future fund deployment planned in liquid sovereign instruments, ABPL is adequately positioned to deal with liquidity pressures that may arise in the current challenging operating environment and sizeable deferment of principal by clients. Operating profitability depicted strong growth on the back of spread improvement and higher fee based income. While overall profitability profile has improved, sizeable provisioning charges continued to be a drag on overall profitability. Sustaining operating profitability profile over the medium term while improvement in quantum of overall profits will be important from a ratings perspective. Ratings remain dependent on improving asset quality indicators which will be challenging in the current macroeconomic environment. Improving asset quality and profitability indicators while sustaining capital buffers will be important to keep ratings at the assigned level over the rating horizon.

For further information on this rating announcement, please contact Mr. Talha Iqbal (Ext: 213) or the undersigned (Ext: 306) at (021) 35311861-66 or email at [info@vis.com.pk](mailto:info@vis.com.pk).

**Faryal Ahmad Faheem**  
Deputy CEO

**Applicable rating criterion: Commercial Banks Methodology – March 2018**

<https://s3-us-west-2.amazonaws.com/backupsq/vis/docs/Meth-CommercialBanks201803.pdf>

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