



Date

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Analyst

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Applicable Criteria

- PACRA_Methodology_FI | Jun-19
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-19
- Criteria | Rating Modifier | Jun-19

Related Research

- Sector Study | Commercial Bank | Jun-20

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PACRA Maintains Entity Ratings of AlBaraka Bank (Pakistan) Limited

Rating Type	Entity	
	Current (26-Jun-20)	Previous (27-Dec-19)
Action	Maintain	Maintain
Long Term	A	A
Short Term	A1	A1
Outlook	Stable	Stable
Rating Watch	-	YES

The ratings reflect ABPL's association with AlBaraka Banking Group – a strong Middle Eastern banking institution and a continued strong support from the major sponsor of the bank. ABPL has largely managed to improve in spreads despite of increasing interest rate environment which creates pressure on cost of deposits. 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. Post-merger, increased operational efficiency and branch level synergies are starting to pay dividends in the form of increasing profitability. There was sizeable improvement in the pre-provision profits of the bank during 2019. This was a good omen. The bank has achieved before and after tax profitability in 1Q2020 and is fully compliant with the capital adequacy regime. From the start of current year 2020, Covid-19 has posed challenges to the banking sector, almost all segments of the economy, worldwide and domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed. The central bank has taken well-tailored and comprehensive actions including reduction in key policy rates (~525bps down since January 2020) and deferment of repayment obligations for a defined period. While reduction in interest rates would determine the Bank's profitability, these measures have cushioned the allied risks surrounding the credit exposures.

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 and hence generation of internal capital. To bridge the regulatory shortfall, the major sponsor of the bank – Al Baraka Islamic Bank B.S.C (c) – has injected USD 9mln as Capital Support Fund, resulting in increase in the Bank's CAR at 12.87% as on Mar 31, 2020. Improving diversification in revenue streams, particularly from non-fund based avenues and maintaining healthy asset quality are important for bottom-line performance. A recent accretion of NPL's is a concern.

About the Entity

ABPL is currently operating with a network of 192 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 five representatives of sponsoring groups and four independent directors. Mr. Ahmed Shuja Kidwai - the CEO - 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.