

Press Release

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

Karachi, June 29, 2022: 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. Rating of the second issue of Tier II Sukuk has been reaffirmed at 'A' (Single A), whereas the rating of the third issue of Tier II Sukuk has been finalized at 'A' (Single A). Outlook on the assigned ratings is 'Stable'. The previous entity and instrument rating actions were announced on June 23, 2021.

The assigned rating derives support from ABPL's association with Al-Baraka Banking Group (ABG), a prominent Islamic Banking Group having diversified operations in 17 countries. The Islamic International Rating Agency (IIRA) has assigned ratings of 'BBB+/A3' (Triple B Plus/A Three) to ABG on the international scale.

Deposit base of the bank showed growth of 8.42% during review period of Jan'21-March'22 and has maintained its market share. The proportion of current and saving deposits has grown over time; however, there remains room for improvement in this regard. Overall, deposit mix and concentration remain compliant with rating benchmarks.

Gross financing portfolio grew by 9.5% with the growth largely being financed through increased deposit base. Cautious lending activity during the ongoing period with growth largely manifested in corporate and consumer segments was noted. Gross asset quality indicators of the Bank however weakened over the reported period Jan'21-March'22, nevertheless net infection levels remained on the lower side as a result of higher provisioning coverage. Despite an increase in the size of financing portfolio, profit levels for FY21 were reported lower being mainly attributable to higher provisioning expense. Improvement in profitability was observed in 1Q'22 due to no additional provisioning charge and slight improvement in spreads. Management of higher provisioning coverage amidst inflationary pressures and weak macroeconomic environment is considered important. Investment portfolio has depicted a substantial increase on a timeline basis and continues to have a low credit risk, given that major proportion of the same is vested in floating rate Federal Government securities.

The Bank remained in compliance with all regulatory requirements with respect to capitalization. On the back of Tier-II capital injection, Capital Adequacy Ratio (CAR) has improved to 13.84% (Dec'21: 12.97%, Dec'20: 12.90%) at end Mar'22. Maintaining capital buffer over regulatory requirement and improving asset quality and profitability indicators in line with benchmark levels will be important over the rating horizon.

For further information on this rating announcement, please contact Ms. Asfia Aziz (Ext: 212) or the undersigned (Ext: 207) at (021) 35311861-66 or email at info@vis.com.pk.



Sara Ahmed
Director

Applicable rating criterion: Commercial Banks – June 2020
<https://docs.vis.com.pk/docs/Meth-CommercialBanks202006.pdf>

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