

Press Release

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

Karachi, June 27, 2023: 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), and the rating of the third issue of Tier II Sukuk has also been reaffirmed at 'A' (Single A). Outlook on the assigned ratings is 'Stable'. The previous entity and instrument rating actions were announced on June 29, 2022.

The assigned rating derives support from ABPL's association with Al-Baraka Group (ABG), a prominent Islamic Banking Group having diversified operations in 15 countries. The Islamic International Rating Agency (IIRA) has assigned ratings of 'BBB+/A3' (Triple B Plus/A Three) to ABG on the international scale.

ABPL maintained a cautious approach to financing due to rising policy rates and deteriorating economic situation. This resulted in a decline in the Bank's gross financing portfolio compared to Dec'21, while the industry witnessed a growth. Resultantly gross non-performing financing ratio was on a higher side as compared to Dec'21 however net infection levels was on the lower side as a result of the higher provisioning coverage. Albeit, net NPF to Tier 1 equity remains higher than peer.

Deposit base of the Bank grew by 6.1% during Jan'22-Mar'23 and was below the industry's growth rate. The Bank improved its liquidity position with a 29.6% growth in liquid assets. Liquid Assets to Deposits and Borrowings (LADB) reached 63.5% (Dec'21: 53.5%) as of Mar'23, and Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), exceeded regulatory requirements.

ABPL's profitability improved in 2022 and 1Q'23, primarily driven by higher spread resulting from monetary tightening. ABPL reported a higher profit after tax of Rs. 1.5b (2021: Rs. 631m) in 2022 and Rs. 744m (1Q'22: Rs. 324m) in 1Q'23 driven by growth in current account deposit in 1Q'23. The Bank implemented efficiency measures, leading to an improvement in the efficiency ratio. Going forward, ABPL aims to boost profitability through efficiency measures and capitalizing on higher spreads.

ABPL remained fully compliant with regulatory requirements related to its capital structure. The Bank's Capital Adequacy Ratio (CAR) stood at 16.98% as of Mar'23, comfortably above the required level of 11.5%. The Tier I CAR and Common Equity Tier I (CET I) demonstrated an increasing trend over the years. The Bank's capital structure includes a Capital Support Fund of Rs. 1.4 billion injected by the parent Bank, which can be converted into Share Capital with prior approval from the State Bank of Pakistan (SBP). SBP has granted an extension for the conversion process of the Capital Support Fund into Share capital until June 30, 2024.

For further information on this rating announcement, please contact Mr. Musaddeq Ahmed Khan (Ext: 216) or the undersigned (Ext: 201) at (021) 35311861-66 or email at info@vis.com.pk.



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Applicable rating criterion: Financial Institution – June 2023

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

VIS Rating Scale:

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

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