RATING REPORT

Al Baraka Bank (Pakistan) Limited

REPORT DATE:
June 27, 2025

RATING ANALYST:
Musaddeq Ahmed Khan
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity Rating	AA-	A1	A+	A1
Outlook/Rating Watch	Stable		Positive	
Rating Action	Upgrade		Maintained	
Date	*June 27, 2025*		*June 30, 2024*	
Sukuk-2	A+	-	A	-
Outlook/Rating Watch	Stable		Positive	
Rating Action	Upgrade		Maintained	
Date	*June 27, 2025*		*June 30, 2024*	

COMPANY INFORMATION	
Established in 2004	**External auditors:** A. F. Ferguson & Co.
Public Limited Company	**Chairman of the Board:** Mr. Azhar Aziz Dogar
Key Shareholders (with stake more than 5%):	**President & CEO:** Mr. Muhammad Atif Hanif
Al Baraka Islamic Bank (Bahrain) B.S.C. (c) ~ 59.13%	
Islamic Corporation for the Development of the Private Sector ~ 11.85%	
Mal Al Khaleej Investment L.L.C. ~11.53%	
Sheikh Tariq Bin Faisal Khalid Al Qassemi ~ 7.50%	

APPLICABLE METHODOLOGY

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

VIS Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Al Baraka Bank (Pakistan) Limited

OVERVIEW OF THE INSTITUTION

Al Baraka Bank (Pakistan) Limited is a licensed Islamic commercial bank and a subsidiary of Al Baraka Islamic Bank B.S.C. (c), Bahrain. The Bank's ultimate parent, Al Baraka Group B.S.C., is also based in Bahrain.

Profile of Chairman

Mr. Azhar Aziz Dogar brings over 30 years of international banking experience across the ME&A/GCC and Asia regions, with exposure to the U.K., Netherlands, and U.S.A. His expertise spans business development, strategy, credit and risk management across corporate/investment, commercial, and retail banking. He has held senior risk roles at DIB Capital, SAMBA Capital, and National Bank of Abu Dhabi. He began his career with Citigroup and held leadership positions at ABN AMRO. Mr. Dogar serves on the Boards of Al Baraka Bank Turkiye and South Africa. He holds a Bachelor's and Master's in Economics from the University of Pennsylvania and Brown University.

Profile of CEO

Mr. Muhammad Atif Hanif is a seasoned banker with 26 years of experience, including 19 years in Islamic banking. His diverse background spans retail and corporate banking across institutions such as The Bank of Khyber (BoK), HBL (Islamic), Dubai Islamic Bank, and Bank Alfalah. He has led strategic turnarounds, notably at BoK,

RATING RATIONALE

The ratings assigned to Al Baraka Bank are supported by its improving financial risk profile and demonstrated sponsor support in prior years. Al Baraka Bank (Pakistan) Limited ('ABPL' or 'the Bank') 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 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.

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.

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 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 *where he transformed Islamic banking into a key profit driver. Mr. Hanif has served on several boards, policy committees and economic think tanks. He is also a published thought leader, prominent area of publications include Home remittances, socio economic development, environment, agriculture and Pakistan-China Socio Economic Cooperation.*

generation, backed by a stable earnings trajectory and prudent risk-weighted asset growth, supports a resilient capital structure.

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.

Banking Sector

In 2024, Pakistan's banking sector remained resilient, supported by improving macroeconomic conditions. Inflation receded from the previous year's highs, the currency stabilized, and fiscal consolidation progressed, enabling steadier economic activity. Meanwhile, the aggregate balance sheet of commercial banks expanded significantly—rising by approximately 15.8% during the year to reach around PKR 53.7 trillion. As of December 2024, deposits had grown by about 9.2% year-on-year to over PKR 31.8 trillion, driven by favorable interest rates during much of the year and financial inclusion efforts.

The divergence between deposit and asset growth is explained by superior equity growth and more notably interbank transactions backed by and channeled into the purchase of government securities to magnify positive spreads through volumes. A substantial portion of the deposit growth during the first three quarters of 2024 was also directed into government securities. In the final quarter, private-sector advances gained significant traction, as banks sought to comply with the regulatory directive mandating that outstanding advances be maintained at a minimum of 50% of respective deposit bases, in order to avoid incremental taxation of up to 15%. Consequently, the average advance-to-deposit ratio stood at 53.2% by year-end.

Financial performance in 2024 remained broadly stable. Aggregate after-tax profitability trend remained flat, with SBP data indicating a marginal increase in after-tax profits to PKR 644.0 billion (2023: PKR 642.0 billion). Net interest margins and net interest income were also range-bound; however, monetary easing initiated in June 2024, along with increased provisioning requirements, exerted pressure on net returns. As a result, key profitability indicators—Return on Average Assets (ROAA) and Return on Average Equity (ROAE)—moderated slightly.

Capital buffers remained strong. The industry's capital adequacy ratio (CAR) rose to approximately 20.6% by end-2024 (2023: 19.7%), remaining well above the regulatory minimum. Banks benefited from strong deposit inflows—boosted by the SBP's digital and financial inclusion initiatives—and continued to maintain excess capital to mitigate systemic risks. In a move to enhance depositor confidence and systemic stability, the Deposit Protection Corporation (DPC) raised insured limits to PKR 1 million per depositor in late 2024.

Asset quality continued to improve during 2024. The non-performing loan (NPL) ratio declined to approximately 6.3% (2023: 7.6%). Following the implementation of IFRS-9 in 2024, specific provisioning coverage for Stage-3 assets rose to 83.8% (2023: 81.3%), while general provisioning coverage against performing advances increased to 1.4% (2023: 0.9%). Regulatory authorities maintained a strong focus on prudent provisioning and risk management practices, including adherence to Basel III capital standards, which supported containment of financial risks. Large corporate borrowers generally remained resilient, underpinned by adequate liquidity and sustained repayment capacity.

Looking ahead, Pakistan's commercial banking sector appears well-positioned, underpinned by strong fundamentals, though it must navigate a landscape of mixed opportunities and risks. The sharp monetary easing in the second half of 2024—reducing policy rates from 22% to around 11% by early 2025—was precipitated by a marked decline in inflation to single digits, creating room for continued gradual policy support. In this evolving macroeconomic environment, banks may face some compression in net interest margins, while the pace of credit expansion will depend on the strength of economic recovery and borrower demand. If growth momentum strengthens, lending to SMEs and consumers is expected to rebound, aided by regulatory incentives and targeted refinance schemes.

Simultaneously, sustained efforts in digital transformation and financial inclusion—including the expansion of instant payment systems and broader outreach to underserved market segments—are expected to improve operational efficiency and deepen market penetration. While fiscal and external vulnerabilities may moderate the pace of policy easing and credit growth, the sector enters 2025 with improved asset quality, strong capitalization, and ample liquidity buffers. Overall, the outlook remains one of cautious optimism, supported by continued regulatory facilitation and a more stable macroeconomic environment, laying the groundwork for gradual and broad-based sectoral growth.

Al Baraka Bank (Pakistan) Limited Appendix I

FINANCIAL SUMMARY (PKR in millions)				
BALANCE SHEET	**31-Dec-22**	**31-Dec-23**	**31-Dec-24**	**31-Mar-25**
Total Investments	109,899.91	122,881.48	126,851.95	142,539.83
Islamic financing and related assets - Gross	96,193.50	91,363.47	115,040.02	115,713.63
Islamic financing and related assets - Net	86,057.05	79,755.89	101,438.82	102,529.70
Total Assets	232,574.62	255,373.65	273,260.95	294,401.71
Due to financial institutions	12,950.00	7,649.66	6,144.59	34,842.22
Deposits & other accounts	185,049.17	207,337.75	223,402.08	216,920.78
Subordinated Mudaraba	4,624.24	4,624.24	3,124.24	3,124.24
Total Liabilities	217,969.89	237,120.49	251,642.54	273,124.86
Paid Up Capital	13,739.63	13,739.63	13,739.63	13,739.63
Tier-1 Equity	12,815.53	15,885.01	19,157.02	19,180.81
Net Shareholders Equity (excl. revaluation surplus)	14,428.32	17,460.07	20,390.48	20,755.11
INCOME STATEMENT	**CY22**	**CY23**	**CY24**	**1QCY25**
Net Spread Earned	8,446.17	13,362.59	15,944.19	3,331.40
Net Provisioning / (Reversal)	1,056.62	1,566.73	159.53	(304.27)
Total Other Income	1,790.98	2,117.24	2,484.00	814.42
Operating Expenses	6,434.61	7,646.41	9,694.40	2,520.79
Profit/ (Loss) Before Tax	2,635.61	6,124.28	8,378.09	1,890.46
Profit / (Loss) After Tax	1,509.70	3,104.18	4,033.71	886.73
RATIO ANALYSIS	**CY22**	**CY23**	**CY24**	**1QCY25**
Market Share (Advances) (%)	0.81%	0.74%	0.72%	0.86%
Market Share (Deposits) (%)	0.82%	0.74%	0.74%	0.69%
Gross Infection (%)	12.20%	13.93%	11.53%	11.18%
Net Infection (%)	2.33%	2.75%	1.11%	1.02%
Specific Provisioning Coverage (%)	82.83%	82.51%	91.36%	91.82%
General Provisioning Coverage (%)	0.50%	1.41%	1.46%	1.27%
Net NPFs to Tier-1 Capital (%) (adj. for general prov.)	15.22%	13.09%	5.55%	5.17%
Cost of Deposits* (%)	7.18%	9.81%	10.02%	6.10%
Spread* (%)	4.72%	7.14%	7.64%	5.75%
Efficiency (%)	63.14%	49.66%	53.76%	62.61%
ROAA* (%)	0.67%	1.27%	1.53%	1.25%
ROAE* (%) (excl. revaluation surplus)	11.04%	19.47%	21.31%	17.24%
Liquid Coverage Ratio (%)	184.10%	213.89%	190.73%	135.89%
Net Stable Funding Ratio (%)	180.00%	216.60%	214.04%	166.67%
Liquid Assets to Deposits & Borrowings** (%)	62.26%	70.69%	63.76%	59.39%
Gross Financings to Deposits Ratio*** (%)	47.89%	40.38%	48.74%	50.72%
Tier-1 CAR (%)	13.26%	16.37%	17.24%	16.94%
Capital Adequacy Ratio (%)	15.80%	19.33%	20.27%	19.50%

**Annualized*

*** Adjusted for repo and collateral*

**** Adjusted for SBP refinancing schemes*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Al-Baraka Bank (Pakistan) Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity & Instrument Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27-June-25	AA-	A1	Stable	Upgrade
30-June-24	A+	A1	Positive	Maintained
27-June-23	A+	A1	Stable	Reaffirmed
29-June-22	A+	A1	Stable	Reaffirmed
23-June-21	A+	A1	Stable	Reaffirmed
27-June-20	A+	A1	Stable	Reaffirmed
28-June-19	A+	A1	Stable	Maintained
29- June-18	A+	A1	Negative	Maintained
17-May-17	A+	A1	Stable	Upgrade
30-Jun-16	A	A1	Rating Watch Developing	Maintained
29-June-15	A	A1	Positive	Maintained
30-June-14	A	A1	Stable	Reaffirmed
28-June-13	A	A1	Stable	Reaffirmed
29-June-12	A	A1	Stable	Reaffirmed
04-July-11	A	A1	Stable	Initial
RATING TYPE: Tier II Sukuk – 3rd Issue				
27-June-25	A+		Stable	Upgrade
30-June-24	A		Positive	Maintained
27-June-23	A		Stable	Reaffirmed
29-June-22	A		Stable	Final
23-June-21	A		Stable	Preliminary

Instrument Structure	**Sukuk – 3rd Issue:** Basel 3 compliant Tier 2 unsecured, subordinated, and privately placed Sukuk to the tune of Rs. 1.735b. The tenor of the Sukuk is ten years maturing in 2031. Profit is payable on a semi-annual basis @ 6M KIBOR+1.5%.
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted

No.	Name	Designation	Date
1.	Mr. Muhammad Atif Hanif	CEO	June 02, 2025
2.	Mr. Muhammad Farrukh Aslam Chughtai	Group Head CIBG	
3.	Mr. Kanwar Shahzad	Group Head Treasury	
4.	Mr. Sayed Nasir Ahmed Khizer Pasha	CRO	
5.	Mr. Tariq Mehraj	CFO	