RATING REPORT

Al-Baraka Bank (Pakistan) Limited

REPORT DATE:
04 July, 2022

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Sukuk – 2nd Issue	A		A	
Sukuk – 3rd Issue	A		A	
Outlook	Stable		Stable	
Date	*June 29, 2022*		*June 23, 2021*	
Rating Action (Entity)	*Reaffirmed*		*Reaffirmed*	
Rating Action (Sukuk – 2nd Issue)	*Reaffirmed*		*Reaffirmed*	
Rating Action (Sukuk – 3rd Issue)	*Final*		*Preliminary*	

COMPANY INFORMATION	
Incorporated in December 2004	**External auditors:** A. F. Ferguson & Co.
Key Shareholders (with stake 5% or more):	**Chairman of the Board:** Dr. Jehad El-Nakla
Al Baraka Islamic Bank B.S.C: 59.13%	**Chief Executive Officer:** Mr. Mohammed Zahid Ahmed (Acting CEO)
Islamic Corporation for the Development of the private Sector: 11.85%	
Mal Al Khaleej Investment LLC: 11.53%	
Sheikh Tariq Bin Faisal Khalid Al Qassemi: 7.50%	

APPLICABLE METHODOLOGY

Rating Methodology – Commercial Banks (June 2020)
https://docs.vis.com.pk/docs/Meth-CommercialBanks202006.pdf

Al-Baraka Bank (Pakistan) Limited

OVERVIEW OF THE INSTITUTION

Owned in majority by Al Baraka Islamic Bank B.S.C. Bahrain, a member of Al-Baraka Banking Group (ABG), Al-Baraka Bank (Pakistan) Limited (ABPL) has a wide network of 170 branches across Pakistan and has a strong franchise in the area of Islamic banking.

Profile of Chairman
Dr. Jehad El-Nakla who now serves as the Chairman of BoD holds the same role at Al Baraka Bank Sudan. In addition to that, he is a Senior Advisor at Acreditus Partners and has previously served at Moody's Investors Service Middle East. Dr. El-Nakla holds a PhD degree in Numerical Analysis and has over thirty years of experience in commercial banking and credit rating agency.

Profile of CEO
Mr. Mohammed Zahid Ahmed possesses over 30 years of experience in the banking industry. He has been associated with ABPL since May 2020, and was appointed as the Acting CEO in March'2022 in place of Mr. Ahmed Shuja Kidwai

RATING RATIONALE

Al-Baraka Bank (Pakistan) Limited (ABPL) was incorporated as a subsidiary of Al-Baraka Islamic Bank B.S.C, which is domiciled in the Kingdom of Bahrain. The parent company is part of Al-Baraka Banking Group B.S.C (ABG).

Sponsor Support is a key rating driver

A key rating driver to the assigned ratings is ABPL's association with the Al-Baraka Banking Group (ABG); a prominent Islamic Banking Group having diversified operations in 17 countries. ABG is one of the leading International Islamic bank with Standard & Poor's rating of B+ (long term) / B (short term) respectively and offers Retail, Corporate, Investment Banking and Treasury Services strictly in accordance with the principles of Islamic Shariah. The asset base of ABG is around US$ 28 billion, and it has a total equity of US$ 2.1 billion at end-Dec'21.

The Islamic International Rating Agency (IIRA) has assigned ratings of BBB+/A3 (Triple B Plus/A Three) to ABG on the international scale. IIRA has also assigned ratings of BB/A3 (Double B/A Three) with stable outlook to Al Baraka Islamic Bank B.S.C., the major sponsor, on the international scale. Support from the parent has been witnessed in the past and VIS expects this support to continue going forward.

Growth in the portfolio of Islamic Financing on a timeline basis.

Gross financing portfolio increased by 9.5% to Rs. 106.6b at end-Mar'22 (Dec'21: Rs. 105.6b, Dec'20: Rs. 97.4b). Disbursements were on the lower side to the tune of Rs. 110.5b (Dec'20: Rs. 117.8b) at end-Dec'21. Corporate portfolio continues to represent the largest share of the portfolio comprising 54% (Dec'21: 53%, Dec'20: 61%) of the total net advances, followed by Retail & Consumer Banking segment contributing 31% (Dec'21: 31%, Dec'20: 25%). Furthermore, given rising interest rate scenario and greater likelihood of NPFs emanating from the high-risk commercial and consumer portfolio, management plans to remain cautious on the lending side with stability in portfolio sizes projected going forward.

Weakening noted in asset quality; however, comfort is drawn through higher provisioning keeping net infection levels on the lower side.

Asset quality indicators weakened in the period Jan'21-March'22. NPFs reached to Rs. 12.0b at end-1Q'22 (2021: Rs.12.2b; 2020: Rs. 9.5b), as a result of which gross infection increased to 11.3% (Dec'21: 11.6%, Dec'20: 9.8%) at end-Mar'22. However, the entity also raised the provisioning coverage in line with this change, which helped to keep net infection on the lower side. During the outgoing year 2021, Hascol (Rs. 1.78b), Shabbir Feed Mills (Rs. 300m) and Shujabad Oil Mills (Rs. 225m) were major clients added in the NPF portfolio. Approach of the management in this regard involves prioritizing out of court settlements with clients. During 2021, the Bank was able to settle NPFs amounting to Rs. 898m. By the end of 2022, it is expected that Rs. 500-600m will be recovered from the non-performing portfolio, and monitoring to curtail infection levels amongst rising interest rate and inflationary environment.

A sizeable investment portfolio, with low credit risk given sizeable exposure in Federal Government Securities.

ABPL's investment portfolio has gone up by 34% in 2021 on the back of a sizeable additional investment in Government of Pakistan's (GoP) Ijarah Sukuk. Overall, credit risk emanating from investment portfolio is considered low given 97% of the investments remain vested in government securities. Market riks arising on the portfolio is also on the lower side given that majority of exposure is in floaters. Non-government debt securities comprise of mainly highly rated instruments, while Foreign Securities include investments in Government securities of Oman. Going forward, management plans to build federal government exposure given rising interest rate environment.

Adequate Liquidly Profile

Liquidity profile of the bank has improved on the back of sizable growth in liquid assets. This was mainly attributable to substantial incremental investments in GoP Ijarah Sukuk. In line with the same. Liquid Assets to Deposits and Borrowings increased to 53% (Dec'21: 53%, Dec'20: 50%) at end-Mar'22. Deposit base of the Bank went up by 8.2% in during Jan'21-March'22. Market share was maintained at 1% at end-Dec'21. The proportion of current deposit and savings deposits has grown on a timeline basis and stood at 72% (Dec'21: 70%, Dec'20: 67%) at end-Mar'22. VIS believes there is room for improvement since only 25% of the deposit base is generated by zero-rated current accounts. Concentration in deposit base has remained at the same level on a timeline basis Overall, deposit mix and concentration complies with the rating benchmarks. Maintenance of the same is considered important, going forward.

Borrowings from financial institutions also increased significantly over the period majorly to finance investments. Of the total, borrowings from SBP under refinance schemes accounted for 66%. Liquidity indicators including liquidity coverage ratio (LCR) and net stability funding ratio (NSFR) remained at comfortable levels and in compliance with regulatory requirements at end-1Q2022.

Profitability of the Bank was affected by higher provisioning expense in FY21. However, improvement was observed in 1Q22 with no additional provisioning charge and slightly higher spreads.

In line with higher provision against NPFs, ABPL recorded a lower profit after tax in 2021. During 2021, net spread improved slightly due to an increase in the size of portfolio. Fee, commission and brokerage income for the year went up by about 50%, mainly on account of higher fees earned from investment banking transactions (2021: Rs. 176m, 2020: Rs. 42m) and a rise in commission generated from trade related agreements (2021: Rs. 350m, 2020: Rs. 264m). Going forward, management envisages fee based income to increase with enhanced initiatives against the same.

With time lag in re-pricing of financing portfolio, spreads were reported at 4.34% (2021: 4.29%, 2020: 5.26%) in 1Q22. Full year impact of rise in policy rates shall be evident in 2023. With higher provisioning expense in 2021, profit after tax was reported lower at Rs. 631m (2020: Rs. 764m).

with stability in recurring income and operating expenses, efficiency ratio of the Bank remained at prior year's level of 67% in 2021.

Going forward, the management plans to enhance profitability through efficiency related measures and reaping benefits of rising spreads.

Capitalization indicators remain compliant with regulatory requirements.

ABPL remained compliant with all regulatory requirements related to the capital structure at end-1Q2022. On the back of Tier-II capital injection of Rs. 1.7b in Dec'2021, Capital Adequacy Ratio (CAR) was reported at 13.84% at end-Mar'22, which is comfortably above the required level of 11.5%. Net NPF to Tier-1 capital at 26% at end-Mar'22 remained noticeably higher than the rating benchmark. Hence, maintaining asset quality will be important going forward to prevent any further equity erosion. . Management foresees CAR levels to remain around 13% despite the impact of IFRS-9.

Capital structure of the Bank entails a Capital Support Fund to the tune of Rs. 1.4b which was injected by the parent Bank. These funds can only be remitted back after prior approval of SBP. Incase capital of the Bank is not increased through alternate plans, the said capital support fund will be converted into Share Capital of the Bank. Presently, SBP has allowed the Bank, timeline extension for the commencement of conversion process of CSF into Share capital till June 30'2023.

FINANCIAL SUMMARY *(amounts in PKR millions) – Annexure I*				
BALANCE SHEET	**2019**	**2020**	**2021**	**1Q2022**
Investments	24,195	57,117	76,552	74,399
Islamic Financing & Other Assets	75,444	90,279	96,202	97,312
Total Assets	161,982	192,814	218,117	216,307
Due to Financial Institutions	4,278	5,722	8,969	11,649
Deposits & other accounts	129,654	159,364	178,917	172,353
Subordinated Loans	3,461	3,175	4,624	4,624
Paid up Capital	13,740	13,740	13,740	13,740
Tier-1 Equity	11,546	12,306	12,934	13,257
Net Worth	12,732	13,029	13,415	13,677
INCOME STATEMENT	**2019**	**2020**	**2021**	**1Q2022**
Net Spread Earned	5,011	6,376	6,530	1,643
Net (Provisioning) / Reversal	(1,188)	(1,208)	(2,208)	51
Non-Markup Income	1,430	1,886	1,982	446
Operating Expenses	(5,215)	(5,394)	(5,615)	(1,505)
Profit/ (Loss) Before Tax	8	1,538	674	582
Profit / (Loss) After Tax	(192)	764	631	324
RATIO ANALYSIS	**2019**	**2020**	**2021**	**1Q2022**
Market Share (Advances)	1.0%	1.1%	1.0%	1.0%
Market Share (Deposits)	0.9%	0.9%	0.9%	0.8%
Gross Infection	11.38%	9.77%	11.58%	11.30%
Provisioning Coverage	63%	74%	77%	77%
Net Infection	4.73%	3.3%	3.2%	3.1%
Cost of deposits	9.74%	4.8%	3.8%	5.4%
Gross Advances to Deposits Ratio	59%	58%	54%	57%
Net NPLs to Tier-1 Capital	40%	27%	28%	26%
Capital Adequacy Ratio (CAR)	13.30%	12.90%	12.97%	13.84%
Markup Spreads	5.36%	5.3%	4.3%	4.3%
Efficiency	80%	67%	67%	73%
ROAA	-0.1%	0.4%	0.3%	0.6%
ROAE	-1.8%	6.4%	5%	10%
Liquid Assets to Deposits & Borrowings	49%	50%	53%	53%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Al-Baraka Bank (Pakistan) Limited				
Sector	Commercial Banks				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating/Sukuk				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	29-June-22	A+	A-1	Stable	Reaffirmed
	23-June-21	A+	A-1	Stable	Reaffirmed
	27-June-20	A+	A-1	Stable	Reaffirmed
	28-June-19	A+	A-1	Stable	Maintained
	29- June-18	A+	A-1	Negative	Maintained
	17-May-17	A+	A-1	Stable	Upgrade
	30-Jun-16	A	A-1	Rating Watch Developing	Maintained
	29-Jun-15	A	A-1	Positive	Maintained
	30-Jun-14	A	A-1	Stable	Reaffirmed
	28-Jun-13	A	A-1	Stable	Reaffirmed
	29-Jun-12	A	A-1	Stable	Reaffirmed
	04-Jul-11	A	A-1	Stable	Initial
	RATING TYPE: Tier II Sukuk – 2nd Issue				
	29-June-22	A		Stable	Reaffirmed
	23-June-21	A		Stable	Maintained
	27-June-20	A		Stable	Maintained
	28-June-19	A		Stable	Maintained
	29- June-18	A		Negative	Maintained
	5-Sept-17	A		Stable	Final
	17-May-17	A		Stable	Preliminary
	RATING TYPE: Tier II Sukuk – 3rd Issue				
	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%. **Sukuk – 2nd Issue:** Basel 3 compliant Tier 2 unsecured, subordinated, and privately placed Sukuk to the tune of Rs. 1.5b. The tenor of the Sukuk is seven years maturing in 2024. Profit is payable on a semi-annual basis @ 6M KIBOR+0.75%.
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any

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<tr><td>Due Diligence Meetings Conducted</td><td>
<table>
<tr><th></th><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>1</td><td>Mr. Abdullah Ghaffar</td><td>Group Head Corporate & Investment Banking</td><td>May 24, 2022</td></tr>
<tr><td>2</td><td>Mr. Tamim Shabbir</td><td>Chief Financial Officer</td><td>May 25, 2022</td></tr>
<tr><td>3</td><td>Mr Javed Husain Siddiqi</td><td>Chief Risk Officer</td><td>May 25, 2022</td></tr>
<tr><td>4</td><td>Mr. Kanwar Shahzad</td><td>Group Head Treasury</td><td>May 25, 2022</td></tr>
<tr><td>5</td><td>Mr. Akif Imtiaz</td><td>Group Head Retail Banking</td><td>May 25, 2022</td></tr>
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