The Pakistan Credit Rating Agency Limited

Rating Report

Bank Alfalah Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2024	AAA	A1+	Stable	Upgrade	-
24-Jun-2023	AA+	A1+	Stable	Maintain	-
25-Jun-2022	AA+	A1+	Stable	Maintain	-
26-Jun-2021	AA+	A1+	Stable	Maintain	-
26-Jun-2020	AA+	A1+	Stable	Maintain	-
28-Dec-2019	AA+	A1+	Stable	Maintain	-
28-Jun-2019	AA+	A1+	Stable	Maintain	-
28-Dec-2018	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Bank Alfalah Limited (BAFL) has portrayed an impressive growth strategy ever since its inception around three decades ago. First attaining the position of a mid-sized bank, it is now in the league of large banks. With a PKR 2,085bln deposit base at end-Dec23, it boasted a competitive system share in customer deposits. The bank was vying for the highest rating ever since it achieved more than a trillion deposit base, among other parameters. The sustainability of multiple factors has been demonstrated and the assigned rating reflects the same fact. The industry landscape is truly intensive and the management will have to take full cognizance of it to remain relevant and competitive in the new peer ratings. The ownership and governance of the bank are considered paramount support to the assigned ratings. The rating takes into account the robust management quality, prudent risk management policies, increasing penetration through digital channels, growing market share, diverse product suite, and successful execution of its strategic plans, as observed over a number of years. As a customer-centric bank, BAFL has a strong nationwide presence, enabling it to reach out to its target audience. It has a presence in 225+ cities, with 1,000+ branches including 350+ Islamic branches. In addition to trade, the bank achieved a remarkable market share of 14.2% in remittances. This provides support to the alternative revenue stream, while also enabling high deposit growth. The digital presence of the bank is one of the strongest. The bank has also opened a digital lifestyle branch in Pakistan, that offers digital banking and lifestyle solutions under one roof. The bank has also started opening digital sales and services centers. The digital throughput almost doubled in the last year. AlfaMall is Pakistan’s first banking-led eCommerce marketplace, which offers among other product offerings. It has more than 730k users, based on 30 days of activity. The Bank has strategically positioned itself in the lending market, capitalizing on its unique business proposition. The gross performing advances increased to PKR 740bln, whereas the infection ratio clocked in at 4.8%. Nevertheless, the loan loss coverage ratio is over 112%, lending comfort against total delinquency. The market share of the bank is approximately 5.9% in advances and 8.5% in trade. During CY23, the net profitability of the Bank notably doubled to PKR 36bln. The cost-to-income ratio improved to 41.8% as against 50% last year. At end-Dec23, the CAR improved to 16.7%. The ratings, on an overall basis, highlight the bank's improved performance, strong financial profile, overall good asset quality, and healthy liquidity. The bank also has a presence in various dimensions of the financial spectrum, namely asset management, general insurance, and brokerage. Going forward, the bank intends to augment its domestic footprint, with more emphasis on aiding SMEs in their growth, boosting trade volumes, penetrating cash management, supply chain financing, and home remittances.

The ratings are dependent on the continued compliance with ‘AAA’ parameters. Any weakening in these parameters will be considered negative.

Disclosure

Name of Rated Entity	Bank Alfalah Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24),Methodology | Financial Institution Rating(Oct-23)
Related Research	Sector Study | Commercial Banks(Jun-24)
Rating Analysts	Muhammad Usman Ameer | usman.ameer@pacra.com | +92-42-35869504

Profile

Structure Bank Alfalah Limited (hereinafter referred to as "BAFL" or "the Bank") was incorporated as a public limited company, in 1992, and is listed on PSX.

Background Bank Alfalah Limited, established in 1992, has experienced remarkable growth to become a prominent private commercial bank in Pakistan. It holds a significant position in credit card issuance and acquisition, SME, digital banking, and remittances and is recognized as one of the major players in Islamic Banking in the country. At end-Dec23, the Bank has a network of 1,009 branches (end-Dec22: 877) and 15 sub-branches (2022: 17 sub-branches). Out of the 1,009 branches, 650 (end-Dec22: 586) are conventional, 348 (end-Dec22: 280) are Islamic, 10 (end-Dec22: 10) are overseas, and 1 (end-Dec22: 1) is an offshore banking unit.

Operations Bank provides financial solutions to consumers, corporations, institutions, and governments through a broad spectrum of products and services, including corporate and investment banking, consumer banking and credit, commercial, SME, agri-finance, Islamic, and asset financing.

Ownership

Ownership Structure Bank Alfalah (BAFL) is majority-owned by the Abu Dhabi Group (The Group – sponsors of the Bank based in Abu Dhabi, UAE), with a stake of 56.16%. Other stakeholders include Mutual Funds, NBFCs, FIs, DFIs, individuals (43.70%), and executives (0.14%).

Stability The Group has retained the majority shareholding, for the last many years and is expected to remain the same in the foreseeable future.

Business Acumen The Group consists of some of the prominent members of UAE's ruling family and leading businessmen of UAE. The group has investments in countries including Pakistan, Bangladesh, the Middle East, Europe, and the US.

Financial Strength Sponsors, having close ties with the ruling family of UAE, possess strong financial ability to support BAFL in case of need.

Governance

Board Structure BAFL's board consists of eight members, including the President/CEO and seven non-executive directors. Out of the seven non-executive directors, four represent the Abu Dhabi Group, while the remaining three members serve as independent directors.

Members' Profile The chairman of the board of directors, His Highness Sheikh Nahayan Mabarak Al Nahayan, is a prominent member of the ruling family, UAE. Currently, he is UAE Cabinet Member and Minister of State for Tolerance and Coexistence.

Board Effectiveness To ensure effective and independent oversight of the Bank's overall operations, the Bank has constituted eight committees namely, i) Audit Committee, ii) Human Resource, Remuneration & Nomination Committee, iii) Risk Management Committee, iv) IT Committee, v) Strategy and Finance Committee, vi) Compensation Committee, vii) Real Estate Committee, and viii) Crisis Management Committee.

Financial Transparency The external auditors of the Bank, A.F Ferguson, and Co., Chartered Accountants, have issued an unqualified audit opinion pertaining to financial statements for CY23.

Management

Organizational Structure BAFL has a lean organizational structure that clearly defines responsibilities, authority, and reporting lines with proper monitoring and compliance mechanism.

Management Team The bank's senior management team comprises experienced bankers having national and international exposure. Mr. Atif Bajwa joined Bank Alfalah as President and CEO in 2020. Mr. Bajwa started his professional journey with Citibank in 1982, and has since held numerous senior positions in large local and multinational banks, including President/CEO of Bank Alfalah, MCB Bank and Soneri Bank.

Effectiveness Bank Alfalah has three main management committees for the purpose of strategic planning and decision-making under the Chairmanship of the CEO; (a) Central Management Committee; (b) Central Credit Committee; and (c) Digital Council.

MIS The Bank uses Temenos (T-24) as its core banking software across all branches and head office operations.

Risk Management Framework The Bank's risk management framework has a well-defined organisational structure for effective management of credit risk, market risk, liquidity risk, operational risk, information security risk, trade pricing, environment and social risk. The Board Risk Management Committee is appointed and authorized by the Board of Directors to assist in the design, regular evaluation, and timely updating of the risk management framework of the Bank, and the Board Information Technology Committee plays a supervisory and advisory role for IT, Information Security and Digital Banking functions within the Bank.

Business Risk

Industry Dynamics CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan's banking sector's total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 18.5% (end-Dec22: 15.5%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

Relative Position BAFL is ranked among the large banks of the country. At end-Dec23, BAFL recorded the highest growth in total deposits clocking in at 40.2%, which led to a commendable increase in its system share to 7.4% (end-Dec22: 6.5%).

Revenues During CY23, BAFL's NIMR witnessed an increase of 63% to stand at PKR 126bln (CY22: PKR 77.2bln) attributable to increased markup earned amounting to PKR 411.9bln (CY22: PKR 214bln). The Bank's asset yield increased to 16.8% (CY22: 12.3%). Similarly, the cost of funds also increased to 11.4% (CY22: 7.8%). Consequently, the Bank's spread improved to 5.4% (CY22: 4.5%).

Performance During CY23, non-markup income increased by 28% to stand at PKR 28bln (CY22: PKR 21.8bln) with a major contribution from fee & commission income clocking in at PKR 14.8bln (CY22: PKR 10.8bln) followed by forex income at PKR 9.5bln (CY22: PKR 9.2bln). The non-markup expense increased to PKR 66bln (CY22: PKR 50bln). The provisioning charges declined to PKR 9.5bln (CY22: PKR 12.5bln). Consequently, the net profitability notably doubled to PKR 36bln (CY22: PKR 18bln).

Sustainability Moving forward, BAFL is well-positioned for sustainable growth and building long-term shareholder value. The Bank will continue to invest in Digital Banking, technology infrastructure, human capital, and in strengthening compliance and controls environment. At the same time, the Bank will continue to focus on building a low-cost deposit base, improving the return on capital on risk assets, optimizing returns from the banking book, and enforcing a strong cost discipline across the Bank. Given the significant rise in interest rates over the last year and the risk of credit headwinds, the Bank will continue to follow prudent risk management practices and manage the loan book optimally.

Financial Risk

Credit Risk As at end-Dec23, the gross performing advances of the bank were reported at PKR 739.6bln (end-Dec22: PKR 734.7bln). The NPLs of the bank increased to PKR 37.6bln (end-Dec22: PKR 30.9bln). Consequently, the infection ratio increased to 4.8% (end-Dec22: 4%). The loan loss provision improved to 112.2% (end-Dec22: 107.6%).

Market Risk At end-Dec23, the investment portfolio of the Bank has grown by 86% to stand at PKR 2,067bln (end-Dec22: PKR 1,114bln). Government securities constitute 94% of total investments (end-Dec22: 91%).

Liquidity And Funding At end-Dec23, the deposit base of the bank posted a growth of 40% to stand at PKR 2,085bln (end-Dec22: PKR 1,487bln). The net advances to deposits ratio was reported at 35.3% (end-Dec22: 49.3%). CA and SA proportions were reported at 37.9% (end-Dec22: 44.5%) and 31.4% (end-Dec22: 27.2%) respectively.

Capitalization At end-Dec23, the Bank's equity base strengthened to PKR 137.9bln (end-Dec22: PKR 100bln). Subsequently, the CAR improved to 16.7% (end-Dec22: 13.8%) comprising Tier I CAR (13.1%), remaining compliant with the minimum requirement by SBP.

PKR mln

Bank Alfalah Limited Listed Public Limited	Dec-23 12M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Total Finances - net	762,895	756,661	696,483	595,856
2 Investments	2,044,022	1,092,467	787,094	526,274
3 Other Earning Assets	133,476	117,750	48,064	101,387
4 Non-Earning Assets	410,127	288,665	203,163	159,080
5 Non-Performing Finances-net	(4,603)	(2,347)	(483)	2,276
Total Assets	3,345,917	2,253,197	1,734,321	1,384,874
6 Deposits	2,084,997	1,486,845	1,139,045	881,767
7 Borrowings	923,543	505,180	390,809	321,960
8 Other Liabilities (Non-Interest Bearing)	199,453	161,157	104,465	90,129
Total Liabilities	3,207,994	2,153,182	1,634,319	1,293,856
Equity	137,923	100,015	100,003	91,017
B INCOME STATEMENT				
1 Mark Up Earned	411,948	214,054	100,402	92,616
2 Mark Up Expensed	(285,877)	(136,812)	(54,134)	(47,911)
3 Non Mark Up Income	28,064	21,883	16,254	12,795
Total Income	154,134	99,126	62,522	57,499
4 Non-Mark Up Expenses	(66,497)	(50,497)	(36,840)	(32,032)
5 Provisions/Write offs/Reversals	(9,462)	(12,468)	(2,312)	(7,589)
Pre-Tax Profit	78,175	36,160	23,370	17,878
6 Taxes	(41,719)	(17,954)	(9,154)	(7,403)
Profit After Tax	36,456	18,206	14,217	10,475
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	4.5%	3.9%	3.0%	3.6%
Non-Mark Up Expenses / Total Income	43.1%	50.9%	58.9%	55.7%
ROE	30.6%	18.2%	14.9%	11.7%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	4.1%	4.4%	5.8%	6.6%
Capital Adequacy Ratio	16.7%	13.8%	14.4%	16.5%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	67.8%	56.6%	54.4%	46.3%
(Advances + Net Non-Performing Advances) / Deposits	35.3%	49.3%	59.2%	65.5%
CA Deposits / Deposits	37.9%	44.5%	44.0%	44.7%
SA Deposits / Deposits	31.4%	27.2%	32.9%	33.2%
4 Credit Risk				
Non-Performing Advances / Gross Advances	4.8%	4.0%	3.5%	4.3%
Non-Performing Finances-net / Equity	-3.3%	-2.3%	-0.5%	2.5%

Credit Rating

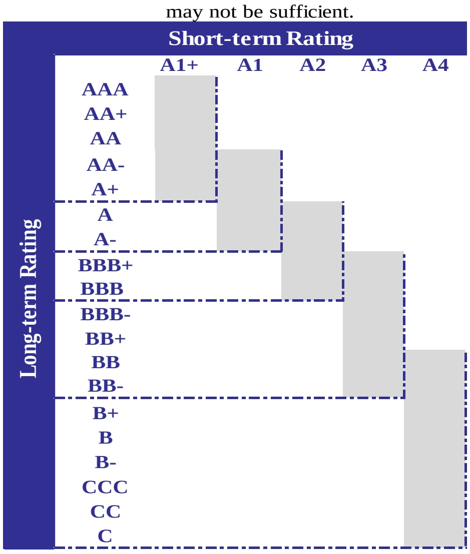
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

Proprietary Information