



The Pakistan Credit Rating Agency Limited

Rating Report

Bank Alfalah Limited | TFCs | First Tranche

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Aug-2020	AAA	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The rating of the TFCs reflect the supreme security structure of the Instrument. The Instrument shall be secured through lien over GoP issued securities - PIBs (Fixed & Floating). The maturity of the securities will match / be higher than the maturity of the Instrument. The securities marked under lien will be 105% of the issue, reflecting comprehensive coverage including any unforeseen fluctuation in prices. The Securities will be placed in SGL account maintained with the State Bank of Pakistan. The bank has entity ratings of "AA+/A1+". The ratings of the bank reflect its strong positioning in the market. With this issuance, the bank is expected to boost the market of covered instruments. The bank is well positioned to benefit from the ensuing advantages. The bank's ratings take comfort from its maintained advances book. The bank's advances has been maintained at a notable level. The mix of deposits improved as the bank added a few percentage points to the CA portion in the CASA mix. BAFL has a sound foothold with a considerable presence across the country, enabling its deposit base growth. The Bank has sustained good profit base. Overall infection ratio remained at the lower edge yet stable. Effective implementation of the envisaged long term business strategy will continue to play an important role in business growth. The rating draws comfort from the bank's stable ownership, experienced management team, prudent risk management policies and distinct emphasis on sustaining the position. Covid-19 has posed challenges to the banking sector, almost all segments of the economy, worldwide and domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed. The bank has also formed a board level Corona Crisis Management Committee in order to formulate future strategies for diminishing the financial and business risks.

Augmentation of the Bank's capitalization backed by strong sponsors and adding granularity to its advances and deposits book are essential. Continued effective management of spreads remains important, meanwhile, holding the asset quality is a pre-requisite.

Disclosure

Name of Rated Entity	Bank Alfalah Limited TFCs First Tranche
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology FI (Jun-20),Methodology Debt Instrument(Jun-20)
Related Research	Sector Study Commercial Bank(Jun-20)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504



Profile

Structure Bank Alfalah Limited (hereinafter referred as “BAFL” or “the bank”) was incorporated as a public limited company, in 1992, and is listed on Pakistan Stock Exchange (PSX).

Background Bank commenced operations in 1992. Since its inception, Bank Alfalah has grown rapidly to become Pakistan’s one of the largest private bank, the largest issuer and acquirer of credit cards, and one of the largest Islamic Banking businesses in the country. The Bank has a network of 698 branches spanning in more than 200 cities in Pakistan.

Operations In collaboration with International Finance Corporation (IFC) - a member of the World Bank Group - the bank altered its model from only offering credit services to providing a complete range of banking services to SME customers.

Ownership

Ownership Structure BAFL is majority owned by the Abu Dhabi Group (ADG) (49.03%), rest is owned by IFC (14.74%), Mutual funds, other NBFIs (27.5%) and General public (8.73%).

Stability HR committee designs succession planning policies for the CEO and Key executives. Internal successors were highlighted in addition to earmarking key potential external resources to ensure a robust pipeline across all levels at the Bank.

Business Acumen ADG consists of some of the prominent members of UAE’s ruling family and leading businessmen of UAE.

Financial Strength Sponsors, being prominent ruling family of UAE, possess strong financial ability to support BAFL in case of need.

Governance

Board Structure At present, BAFL’s board comprises of eight members including President/CEO and seven non-executive directors, out of which four are representatives of ADG, one is an IFC nominee, while two members are independent. Mr. Shehzad Naqvi resigned since Feb-20 and casual vacancy is refilled with appointment of Mr. Khalid Qurashi.

Members’ Profile Chairman of the board, H.H. Sheikh Nahayan Mubarak Al Nahayan, is a prominent member of the ruling family of Abu Dhabi, UAE. He owns substantial business interests, hotels and other investments in the UAE, Pakistan, Africa, USA and Central Asia.

Board Effectiveness The board actively participates in strategy formulation and effectively monitors the managerial affairs of the bank. To ensure effective and independent oversight of the bank’s overall operations, the Bank has constituted six committees. Five meetings were held during the year CY19 with good level of attendees.

Financial Transparency The external auditors of the Bank, EY Ford Rhodes, Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for 2019.

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 Bank’s senior management team comprises experienced bankers having national and international exposure. Mr Atif Bajwa has recently joined the Bank’s Board as President & CEO of Bank Alfalah whereas Mr. Nauman Ansari, resigned from the same position in Feb’20.

Effectiveness Bank Alfalah has three main management committees for the purpose of strategic planning and decision-making under the Chairmanship of the CEO.

MIS The bank uses Temenos (T-24) as its core banking software across all branches. The Bank’s core banking system is well recognized for its high stability and efficiency; a result of carefully planned performance-enhancements, architectural redesigning, optimization along with a large number of successfully in-house developed T24 new products.

Risk Management Framework The Board Risk Management Committee (BRMC) is appointed and authorized by the Board of Directors (BOD) to assist in design, regular evaluation and timely updating of the risk management framework of the Bank.

Business Risk

Industry Dynamics As a result of general economic slowdown most indicators of the banking sector reflected mixed trend. Deposits of the banking sector stood at (CY19: PKR 15,953bln; CY18: PKR 14,254bln), showing a growth of ~12% as compared to 9.5% growth in CY18. Deployment of funds was largely skewed towards investments and particularly towards government instruments due to favorable interest rate dynamics (CY19: PKR 8,939bln; CY18: PKR 7,914bln). Meanwhile, advances witnessed a slowdown owing to subdued demand, cautious lending approach and monetary tightening. This was only a growth of 3.7% as compared to expansion of 22.2% in CY18. Asset quality saw deterioration – increased NPLs (CY19: PKR 761bln; CY18: PKR 680bln). The profitability of the banking sector improved due to an increase in Net Interest Income, which translated positively in other profitability indicators. The overall risk profile of the banking sector remained satisfactory.

Relative Position BAFL is ranked among the large banks of the country, on the basis of its strong growth trajectory in net advances and deposits. BAFL upheld its position in the banking sector with share in customer deposits of the sector at 5.1%.

Revenues On the revenue front, net markup income witnessed growth of ~40.4% on YoY basis to stand at (1QCY20: PKR 11.7bln; CY19: PKR 44.8bln; CY18: PKR 31.9bln) wherein Non- markup income stayed largely the same when compared YoY (1QCY20: PKR 2.7; CY19: PKR 10.3bln; CY18: PKR 10.4bln).

Performance The reported bottomline recorded a growth of 19.5% in CY19, stood at PKR 12.7bln (CY18: PKR 10.6bln), amid challenging operating environment. The Bank’s PBT also witnessed growth of 27.3% on YoY basis (CY19: PKR 22.4bln (CY18: PKR 17.6bln) while stood at PKR 4.7bln in 1QCY20. The growth in PBT was not effectively translated in the PAT due to additional Super Tax charge levied through the mini budget and higher provisioning & increased cost of funding due to hike in interest rates.

Sustainability Looking ahead, Bank Alfalah is well-positioned for strong growth and building long-term shareholder value. 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. The Bank is focusing on expanding its outreach with increased number of branches. Focus on recoveries from the infected portfolio after the COVID-19 outbreak will be a foreground for the Bank.

Financial Risk

Credit Risk As of CY19, net advances were reported at PKR 511bln (CY18: PKR 502bln) constituting around 48% of the Bank’s total assets; largely remaining at same on YoY levels. The gross advances merely grew by ~2% as against growth of 25% in CY18. The Non-performing loan base witnessed an increase of PKR 3.6bln YoY (1QCY20: PKR 23.5bln; CY19: PKR 22.4; CY18: PKR 18.8bln), on the basis of subjective classification and prudence. Additionally, the NPL ratio was recorded as (1QCY20: 4.5%; CY19: 4.2%; CY18: 3.6%); yet continuing to remain one of the lowest infection ratios in the industry.

Market Risk Following the significant investment in PIBs, the investment portfolio (including investments in debt instruments of PKR 7.5bln) depicted an increase of 7.9%, amounting to PKR 299bln during CY19 (CY18: PKR 277bln). The government securities continue to dominate the overall investment book (~78%) Net investments for the period have increased with a corresponding increase in Lending to Financial Institutions by PKR 9.2bln to capitalize on evaluating the opportunities.

Liquidity And Funding Bank’s focus has been on improving deposit profile and managing spreads throughout, total Deposits were reported at (1QCY20: PKR 755bln; CY19: PKR 782bln; CY18: PKR 703bln); growth mainly in current deposits on YoY basis. ADR ratio stood at (1QCY20: 66.3%; CY19: 65.4%; CY18: 71%). With a prudent approach, BAFL has built a fair liquidity position during the period depicted through its liquidity coverage ratio (1QCY20: 171%; CY19: 163%; CY18: 156%).

Capitalization As on 1QCY20, Bank’s CAR stood at 17.9% (CY19: 16.88%; CY18: 14.95%), which is well-above the end-Dec’19 regulatory requirement of ~12.50%. Higher Quality of capital is evident from Bank’s ratio; Common Equity Tier-I (CET-I) to Total Risk Weighted Assets (RWA), which comes to ~12.25% against the regulatory requirement of 6.00%. The Bank is planning to issue Listed, Rated and Secured Fixed Rate Redeemable TFCs up to PKR 50bln - Tranche-I comprise of PKR 10bln with the tenor of 3years.



PKR mln

Bank Al Falah Limited
Listed Public Limited

Mar-20	Dec-19	Dec-18	Dec-17
3M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	508,178	515,092	508,254	408,224
2 Investments	355,585	291,560	268,977	392,112
3 Other Earning Assets	64,994	87,143	75,107	59,786
4 Non-Earning Assets	149,114	167,195	151,814	137,653
5 Non-Performing Finances-net	3,931	3,682	2,066	1,052
Total Assets	1,081,803	1,064,672	1,006,218	998,828
6 Deposits	755,135	782,284	702,895	644,985
7 Borrowings	158,879	114,829	135,727	212,185
8 Other Liabilities (Non-Interest Bearing)	79,700	79,531	91,948	75,859
Total Liabilities	993,714	976,645	930,571	933,028
Equity	88,089	88,028	75,647	65,800

B INCOME STATEMENT

1 Mark Up Earned	25,906	92,481	59,672	56,176
2 Mark Up Expensed	(14,125)	(47,623)	(27,746)	(27,199)
3 Non Mark Up Income	2,709	10,396	10,431	9,277
Total Income	14,490	55,253	42,357	38,253
4 Non-Mark Up Expenses	(8,206)	(29,843)	(24,713)	(24,964)
5 Provisions/Write offs/Reversals	(1,528)	(3,029)	(27)	616
Pre-Tax Profit	4,757	22,382	17,618	13,906
6 Taxes	(1,936)	(9,686)	(6,993)	(5,539)
Profit After Tax	2,821	12,696	10,625	8,367

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	4.4%	4.3%	3.2%	3.0%
Non-Mark Up Expenses / Total Income	56.6%	54.0%	58.3%	65.3%
ROE	12.8%	15.5%	15.0%	13.3%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	8.1%	8.3%	7.5%	6.6%
Capital Adequacy Ratio	17.9%	16.9%	15.0%	13.8%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	44.9%	42.6%	39.5%	43.3%
(Advances + Net Non-Performing Advances) / Deposits	66.3%	65.4%	71.4%	62.1%
CA Deposits / Deposits	44.2%	43.4%	40.9%	45.3%
SA Deposits / Deposits	35.1%	32.4%	34.5%	33.6%

4 Credit Risk

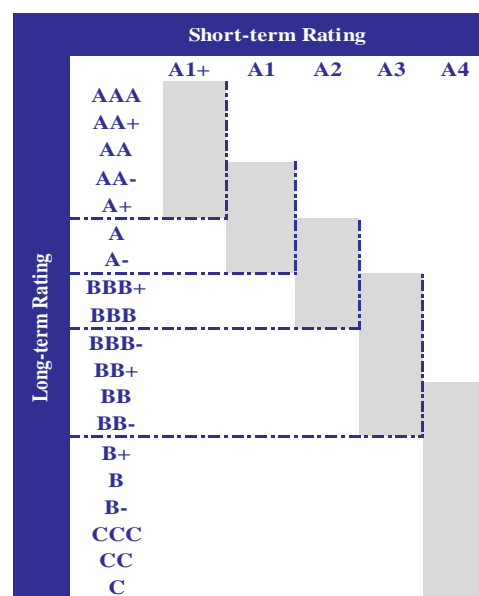
Non-Performing Advances / Gross Advances	4.5%	4.2%	3.6%	4.2%
Non-Performing Finances-net / Equity	4.5%	4.2%	2.7%	1.6%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying debt 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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B	
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 on debt instrument is carried out on an ongoing basis till the maturity of the instrument or cessation of contract. 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.

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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.
- (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)

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- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Listed, rated and secured fixed rate redeemable capital instrument	10Bln Exclusive of Green Shoe option of PKR 5Bln	3 Years	Instrument will be secured and the maturity of the lien marked securities will match / be higher than the maturity of the Instrument. For first tranche, securities provided under lien shall be combination of 5Yr & 10Yr PIBs (fixed & floater) of 105% of Issuance.	PKR 10.5Bln	N/A	Pak Brunei Investment Company Ltd.	N/A

Bank Alfalah Limited | Secured TFC | Preliminary

Name of Issuer	Bank Alfalah Limited
Issue size	PKR 10Bln - Exclusive of Green Shoe option of PKR 5Bln
Tenor	3 Years
Maturity	3 Years from the date of Issuance
Profit Rate	9%
Principal Repayment	At maturity (Bullet Payment)
Security	Instrument will be secured against GoP issued securities - PIBs (Fixed And Floating)

Bank Alfalah Limited | Secured TFC | Redemption Schedule

Due Date Principle	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate - p.a.	Markup/Profit Payment	Installment Payable	Principal Outstanding
	<i>PKR in mln</i>						
Issuance			Interim Coupon Payment*				10,000.00
6 months from issuance	10,000.00	-	6 months from issuance	9%	450.00	450.00	10,000.00
12 months from issuance	10,000.00	-	12 months from issuance	9%	450.00	450.00	10,000.00
18 months from issuance	10,000.00	-	18 months from issuance	9%	450.00	450.00	10,000.00
24 months from issuance	10,000.00	-	24 months from issuance	9%	450.00	450.00	10,000.00
30 months from issuance	10,000.00	-	30 months from issuance	9%	450.00	450.00	10,000.00
36 months from issuance	10,000.00	10,000.00	36 months from issuance	9%	450.00	10,450.00	-
	10,000.00				2,700.00	12,700.00	-

*The Profit Rate @ 9% on the investment amounts invested by each investor from the date on which such investment amounts are received by the Issuer until the date which is one day prior to the Issue Date.