



The Pakistan Credit Rating Agency Limited

Rating Report

Bank Alfalah Limited | TFCs | Series A

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Feb-2022	AAA	-	Stable	Maintain	-
16-Feb-2021	AAA	-	Stable	Initial	-
06-Aug-2020	AAA	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The Bank Alfalah Limited (or "BAFL") has entity rating of "AA+/A1+" which reflects its strong positioning in the market. The Bank is well positioned to benefit from the ensuing advantages. The Bank's rating take comfort from its diversified loan book which is maintained at a notable level; along with healthy CAR. 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. The rating of TFCs reflects the supreme security structure of the Instrument. The Instrument is secured through lien over GoP issued securities – 10 years PIBs. The securities marked under lien are 105% of the issue, reflecting comprehensive coverage including any unforeseen fluctuation in prices. The securities are placed in BAFL SGL account maintained with the State Bank of Pakistan. The rating draws comfort from the Bank's stable ownership, experienced management team, prudent risk management policies and distinct emphasis on sustaining the position.

The rating is derived on the basis of sovereign risk on the GoP issued securities. Further, the rating is also dependent on maintaining 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 Series A
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-21),Methodology Financial Institution Rating(Jun-21)
Related Research	Sector Study Commercial Bank(Jun-21)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504



Issuer Profile

Profile 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). 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. 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 BAFL is majority owned by the Abu Dhabi Group (ADG) (49.03%), rest is owned by IFC (14.74%), Mutual funds, other NBFIs (27.7%) and General public (8.53%).

Governance At present, BAFL's board comprises of nine members including President/CEO and eight non-executive directors, out of which four are representatives of ADG, two IFC nominees, while two members are independent. Recently, Mr Khalid Qurashi joined the board as an independent director. Chairman of the board, H.H. Sheikh Nahayan Mabarak 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.

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

Business Risk The indicators of the banking sector reflected signs of recovery and resilience. Deposits of the banking sector grew by 12% to PKR 20,441bln (CY20: PKR 18,519bln) as compared to 16.1% growth in CY20. The surge in deposits provided the necessary funding support to finance the robust rise in investments (1HCY21: PKR 14,162bln, CY20: PKR 11,935bln) which remained tilted towards government instruments. On the advances front, during 1HCY21, after recording slight uptick advances stood at PKR 8,808bln (CY20: PKR 8,292bln) where mild contraction was observed in CY20 owing to slackness amid COVID-19 pandemic outbreak. Minute uptick of 0.5% was observed in the sector’s infection. The policy measures rolled out by the SBP (during CY20) enabled the sector to enhance profitability, improve resilience and limit the credit risk. With the completion of deferment period allowed, the aftermath is yet to be comprehended by the industry.

Financial Risk As of 9MCY21, net advances of the Bank were reported at PKR 668bln, constituting around 42% of the Bank’s total assets; showing an increase of 29% as compared to net advances of PKR 516bln for 9MCY20. The Non-performing loan base of the Bank witnessed a decrease of PKR 0.8bln as compared to CY20 and was reported at PKR 25bln in 9MCY21. Additionally, the infection ratio was recorded at 3.7% as compared to CY20 ratio of 4.3%; continuing to remain one of the lowest infection ratios in the industry.

Instrument Rating Considerations

About The Instrument The Bank has planned for the issuance of Rated, Secured, Listed, Redeemable Term Finance Certificates (TFCs), having total approved Issue Size of up to PKR 50bln. Issue size of current tranche Series A is PKR 11bln. The tenor of Series A is 3 years where rate is 9.03% per annum. Profit is payable semi-annually in arrears on the outstanding principal amount, based on 365 days a year and on non-cumulative basis. The first coupon profit payment will fall due six months from issue date (i.e. January 15, 2021) and subsequently every six months thereafter. Interim Coupon Payment shall be equal to profit on investment amounts invested by each investor from date on which such investment amounts are received by Issuer until the date which is one day prior to Issue Date.

Relative Seniority/Subordination Of Instrument TFCs amount is secured against lien over 10 years PIB floater of PKR 12bln maintained in the SGL Account No. 10016-1, which is in excess of the amount required as per the arrangement (105% of the Tranche Series A issue amount). The maturity profile of the PIBs kept under lien exceeds the maturity of the TFC, eliminating the need to replenish the PIBs during the tenor of the instrument. The Investment Agent may from time to time request other documents or accept additional assets, instruments, encumbrances as may reasonably be requested/ offered for the purpose of fully perfecting the Security created in favor of the Investment Agent. In order to safeguard the interests of the TFCs holders, Pak Brunei Investment Company Limited has been appointed to act as an Investment Agent.

Credit Enhancement 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 5 and 10 years PIBs (fixed & floater) of 105% of Issuance.



The Pakistan Credit Rating Agency Limited

Bank Alfalah Limited

STATEMENT OF FINANCIAL POSITION

	Sep-21	Jun-21	Mar-21	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19
	9M	6M	3M	12M	9M	6M	3M	12M
	Management	Management	Management	Audited	Management	Audited	Management	Audited
A Total Finances-net								
1 Advances								
a. Loans, Cash Credits and Running Finances	502,679	476,875	456,442	458,635	402,904	413,916	391,554	403,040
b. Islamic Financing and Related Assets	120,205	111,645	107,523	101,747	77,972	85,919	91,417	87,310
c. Bills Discounted and Purchased	23,129	24,692	17,519	14,657	14,423	12,648	13,963	17,203
2 Debt Instruments	646,013	613,213	581,484	575,040	495,299	512,484	496,934	507,554
	22,433	21,667	21,304	20,816	21,038	23,359	11,244	7,538
	668,446	634,880	602,788	595,856	516,337	535,843	508,178	515,092
B Investments								
1 Government Securities	594,506	662,957	492,288	453,055	445,092	406,096	293,317	233,115
2 Equity Instruments	8,208	8,286	9,031	6,914	7,877	6,972	6,171	7,538
3 Mutual Funds	73,567	70,684	65,646	64,870	63,174	53,575	53,572	48,381
4 Subsidiaries/Associates	1,435	1,435	1,435	1,435	2,526	2,526	2,526	2,526
	677,715	743,361	568,401	526,274	518,668	469,169	355,585	291,560
C Other Earning Assets								
1 Deposits with Banks	10,061	9,364	13,450	24,082	8,610	9,399	14,590	15,708
2 Lending to Financial Institutions	47,094	55,359	35,612	77,306	53,161	31,906	50,404	71,435
	57,155	64,723	49,062	101,387	61,771	41,305	64,994	87,143
D Total Earning Assets (A+B+C)	1,403,316	1,442,964	1,220,251	1,223,517	1,096,776	1,046,317	928,758	893,795
E Non-Earning Assets								
1 Fixed Assets Including Intangible Assets	33,864	32,433	32,217	32,261	32,271	30,488	30,527	30,344
2 Cash and Bank Balances	86,480	107,898	87,552	81,501	74,085	92,874	72,736	89,734
3 Deferred Tax	-	-	-	-	-	-	-	-
4 Others	57,384	53,175	46,451	45,319	40,061	49,398	45,851	47,756
	177,728	193,506	166,220	159,080	146,417	172,760	149,114	167,834
F Non-Performing Finances-net								
1 Net Non-Performing Advances								
a. Non-Performing Advances	25,030	25,111	25,355	25,860	25,176	25,056	23,502	22,417
b. Accumulated Provisions (Prudential Specific)	(20,812)	(19,543)	(18,538)	(18,317)	(20,139)	(20,181)	(18,636)	(17,740)
c. Accumulated Provisions (Prudential General)	-	-	-	-	-	-	-	-
d. Accumulated Provisions (General)	(4,414)	(5,381)	(5,296)	(5,266)	(4,449)	(2,907)	(936)	(995)
	(196)	187	1,521	2,276	589	1,969	3,931	3,682
2 Net Non-Performing Debt Instruments								
a. Non-Performing Debt Instruments	513	513	654	668	1,150	1,160	1,138	1,151
b. Accumulated Provisions (Diminution in Value of Debt Instruments)	(513)	(513)	(654)	(668)	(1,150)	(1,160)	(1,138)	(1,151)
	-	-	-	-	-	-	-	-
	(196)	187	1,521	2,276	589	1,969	3,931	3,682
G Total Assets (D+E+F)	1,580,847	1,636,657	1,387,992	1,384,874	1,243,782	1,221,046	1,081,803	1,065,311
H Deposits								
1 Individuals	493,557	488,654	435,038	420,058	378,971	373,437	348,965	361,511
2 Private Sector	347,649	344,195	306,429	295,878	297,590	293,244	274,028	283,880
3 Financial Institutions	49,103	48,615	43,281	41,791	50,974	50,229	46,938	48,625
4 Government and Public Sector Entities	145,745	144,297	128,465	124,041	92,530	91,179	85,204	88,267
	1,036,054	1,025,762	913,213	881,767	820,066	808,090	755,135	782,284
I Borrowings								
1 SBP Refinance	117,508	111,094	104,725	105,506	87,113	64,289	58,414	49,899
2 Financial Institutions	207,966	284,161	171,338	200,454	147,062	160,027	88,479	52,943
3 Sub-ordinated Debt Instruments	18,000	18,000	18,000	16,000	7,000	7,000	11,986	11,987
	343,474	413,255	294,063	321,960	241,175	231,316	158,879	114,829
J Other Liabilities (Non-Interest Bearing)								
1 Deferred Tax Liability	405	1,023	481	1,361	1,941	3,234	3,442	3,451
2 Bills Payable	24,205	28,910	22,851	22,571	22,391	21,702	14,836	17,169
3 Others	84,190	74,793	69,341	66,197	64,475	64,201	61,422	59,550
	108,800	104,726	92,673	90,129	88,807	89,137	79,700	80,170
K Equity								
1 Share Capital	17,772	17,772	17,772	17,772	17,772	17,772	17,772	17,772
2 Reserves	28,725	27,889	26,881	27,680	28,193	28,222	27,865	26,046
3 Unappropriated Profit	37,410	37,762	34,635	35,057	36,817	34,334	31,838	32,843
4 Revaluation								
a. Investments	239	1,102	351	2,090	2,519	3,827	2,251	2,989
b. Fixed Assets	8,373	8,389	8,404	8,419	8,433	8,349	8,364	8,378
	8,613	9,491	8,755	10,509	10,952	12,176	10,615	11,367
	92,519	92,914	88,043	91,017	93,733	92,503	88,089	88,028
L Total Liabilities & Equity (H+I+J+K+L)	1,580,847	1,636,657	1,387,992	1,384,874	1,243,782	1,221,046	1,081,803	1,065,311
M Memorandum Items								
1 Deposits								
a. Current	464,980	477,362	417,875	394,535	376,991	373,892	334,060	339,837
b. Saving	349,120	327,743	296,332	292,618	288,640	272,045	264,761	253,777
c. Term	221,955	220,657	199,006	194,613	154,435	162,153	156,314	188,671
	1,036,054	1,025,762	913,213	881,767	820,066	808,090	755,135	782,284

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.

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+	
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-	
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.
A-	
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.
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+	
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-	
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
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 surveil 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

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(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

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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.
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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)
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- (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)
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- (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	11Bln	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 12Bln	N/A	Pak Brunei Investment Company Ltd.	N/A

Name of Issuer	Bank Alfalah Limited
Issue Date	15-Jan-21
Maturity	15-Jan-24
Call Option	N/A

Bank Alfalah Limited | TFC Series A | 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>				<i>PKR in mln</i>		
Issuance							11,000.00
15-Jul-21	11,000	-	15-Jul-21	9.03%	496.65	496.65	11,000.00
15-Jan-22	11,000	-	15-Jan-22	9.03%	496.65	496.65	11,000.00
15-Jul-21	11,000	-	15-Jul-21	9.03%	496.65	496.65	11,000.00
15-Jan-23	11,000	-	15-Jan-23	9.03%	496.65	496.65	11,000.00
15-Jul-21	11,000	-	15-Jul-21	9.03%	496.65	496.65	11,000.00
15-Jan-24	11,000	11,000	15-Jan-24	9.03%	496.65	11,496.65	-
		11,000.00			2,979.90	13,979.90	-