RATING REPORT

Bank Alfalah Limited

REPORT DATE:
February 20, 2017

RATING ANALYSTS:
Talha Iqbal
talha.Iqbal@jcrvis.com.pk

Moiz Badshah
moiz.badshah@jcrvis.com.pk

RATING DETAILS

Rating Category	Initial Rating Long-term	Initial Rating Short-term
Entity	AA+	A-1+
Rating Outlook	Stable	
Rating Date	*14th Feb, '17*	

COMPANY INFORMATION

Incorporated in 1992	External auditors: **KPMG Taseer Hadi & Co., Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. H.H. Sheikh Nahayan Mabarak Al Nahayan**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Atif Bajwa**
H.H. Sheikh Nahayan Mabarak Al Nahayan – 10.80%	
H.H. Sheikh Hamdan Bin Mubarak Al Nahayan, Chairman – 8.49%	
H.E. Sheikh Suroor Bin Mohammad Al Nahayan – 7.21%	
Mr. Abdulla Nasser Hawaileel Al Mansoori, Direcor – 5.15%	
M/s. Electro Mechanical Company LLC – 5.51%	
M/s. International Finance Corporation – 14.93%	

APPLICABLE METHODOLOGY(IES)

Commercial Banks (November, 2015): *http://jcrvis.com.pk/docs/Meth-CommercialBanks201511.pdf*

Bank Alfalah Limited

OVERVIEW OF THE INSTITUTION

Bank Alfalah Limited (BAFL) is a public limited company with majority shareholding held by Abu Dhabi Group (ADG), comprising some of the prominent members of UAE's ruling family and leading businessmen.

At end-Sept.'16, the bank was operating out of 486 conventional branches (2015: 484 branches), 158 Islamic branches (2015: 158 branches), 10 overseas branches (2015: 10 branches) and 1 Whole Sale Banking Unit (2015: 1 Unit).

BAFL has exposure in three foreign countries, namely: Bangladesh, Afghanistan and Bahrain (Wholesale Banking Unit).

Chairman
Mr. H.H. Sheikh Nahayan Mabarak Al Nahayan

Chief Executive Officer
Mr. Atif Bajwa

RATING RATIONALE

Bank Alfalah Limited (BAFL) is the sixth largest Bank in the country with a market share of 5.8% (2015: 6.2%, 2014: 6.7%) in domestic deposits at end-Sept'16. As per management, decline in market share is part of a deliberate strategy to further improve deposit profile and manage spreads in a low interest rate environment in the backdrop of significant competition for lending rates. The Bank also has presence in the overseas market (Bangladesh, Afghanistan and Bahrain), representing around 6% of total assets. The Bank plans to launch Dubai operations during the ongoing year. BAFL also enjoys a sizeable Islamic footprint with 16.4% contribution to total assets. Product portfolio of the Bank is extensive while BAFL's strong correspondent banking network facilitates in providing comprehensive trade services for its clients. This is reflected in highest fee commission income in the peer group. Going forward, key focus areas include SME lending, transaction banking and shift towards digital banking.

Credit Risk

Major portion of the Bank's assets comprise exposure to the sovereign/public sector. Aggregate exposure to the sovereign / public sector by way investments & advances represents over half of total assets. Corporate loan book continues to remain the mainstay of the Bank's lending operation while aggregate financing to consumer and SME segment represents around one-tenth of the financing portfolio. Overall sectoral exposures are diversified with largest exposure representing 15% of financing portfolio. While concentration risk in advances portfolio remains, the same is mitigated by financing to government guaranteed exposures and time honoured lending relationship with most clients. Besides growing financing portfolio with existing and new clients having sound repayment history, BAFL also plans to tap supporting industries that will benefit from spillover effects of China Pakistan Economic Corridor. Overall credit risk profile of the Bank has improved overtime with reduction in infection levels (9M16: 5.4%; 2012: 8.9%), increase in provisioning coverage (9M16: 87.5%; 2012: 65%) and higher proportion of public sector exposure in advances portfolio.

Investment Portfolio

Around nine-tenth of the investment portfolio, as at end-Sept'16 (Rs. 409.5b), comprises exposure to government securities. Investment in PIBs comprises two-third of government paper holdings with duration of PIB portfolio at around 2 years. While credit risk emanating from the investment portfolio is considered negligible with sizeable investment in government securities, exposure to market risk has increased slightly compared to previous years due to minor rise in portfolio duration.

Liquidity

Liquidity profile of the Bank is strong as reflected in an improving and healthy depositor profile with increase in the proportion of non-remunerative current accounts and lower depositor concentration levels. The proportion of current non-remunerative account in deposit mix has increased to 39.7% (2015: 36.7%) at end-9M16 and ranks the highest amongst peers. The top 50 depositor concentration levels have reduced to 20.5% (2015: 21.4%). Sizeable liquid assets in relation to total deposits and borrowings (9M16: 47%; 2015: 42%) further support the Bank's liquidity profile.

Capitalization

Capitalization indicators have strengthened over time with increase in equity base on account of retained profits and injection of equity by IFC while Tier-1 and overall CAR were reported at 10.88% (2015: 9.69%) and 14.51% (2015: 13.4%) at end-9M16, respectively. Moreover, net-NPL in relation to tier-1 equity was reported at 7.6% (2015: 8.0%, 2014: 17.1%) at end-9M16.

Profitability

With pressure on spreads and increase in administrative expenses, operating profitability of BAFL declined during 9M16 vis-à-vis 9M15. However, profit before tax was higher on account of lower provisions and higher capital gains. Efficiency (cost to income) ratio of the Bank is on the higher side and compares less favorably to peers. As per management, higher efficiency ratio is a function of significant investment made on widening Bank's product suite and offerings as well as higher consumer portfolio vis-à-vis peers. Going forward, continuing exposure in high yielding PIBs and decline in cost of deposits bodes well for profitability of the Bank.

Bank Alfalah Limited

Appendix II

FINANCIAL SUMMARY			*(amounts in PKR Billions)*
BALANCE SHEET	**30th Sept'16**	**31st Dec'15**	**31st Dec'14**
Total Investments	410	423	324
Advances	328	334	291
Total Assets	870	903	743
Borrowings	128	172	55
Deposits & other accounts	641	640	606
Subordinated Loans	10	10	10
Tier-1 Equity	41	37	33
Net Worth *(Excluding Surplus on revaluation of assets)*	59	53	45
INCOME STATEMENT	**30th Sept'16**	**31st Dec'15**	**31st Dec'14**
Net Mark-up Income	22	29	22
Net Provisioning	0	2	2
Non-Markup Income	7	9	9
Operating Expenses	18	23	21
Profit Before Tax	11	13	9
Profit After Tax	6	8	6
RATIO ANALYSIS	**30th Sept'16**	**31st Dec'15**	**31st Dec'14**
Market Share (Advances) (%)	N/a	6.7%	6.4%
Market Share (Deposits) (%)	N/a	6.2%	6.7%
Gross Infection (%)	5.4%	5.4%	6.4%
Total Provisioning Coverage (%)	87.5%	87.7%	73.4%
Net Infection (%)	1.0%	0.9%	2.0%
Cost of deposits (%)	3.1%	4.00%	5.15%
Net NPLs to Tier-1 Capital (%)	7.6%	8.0%	17.1%
Capital Adequacy Ratio (C.A.R (%))	14.51%	13.40%	12.75%
Markup Spreads (%)	3.8%	4.24%	4.42%
Efficiency (%)	66%	63%	70%
ROAA (%)	0.7%	0.9%	0.9%
ROAE (%)	14.0%	19.1%	18.9%
Liquid Assets to Deposits & Borrowings (%)	49.3%	42.7%	61.6%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix III

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 IV

Name of Rated Entity	Bank Alfalah Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
02/14/2017	AA+	A-1+	Stable	Initial

Instrument Structure	N/a.
Statement by the Rating Team	JCR-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	JCR-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, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2017 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.