RATING REPORT

Bank Alfalah Limited

REPORT DATE:
November 15, 2017

RATING ANALYSTS:
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RATING DETAILS

	Tier-1 TFC Rating
Rating Category	**Long-term**
Tier-1 TFC	AA-
Rating Outlook	Stable
Rating Date	*8th November, 2017*
Rating Action	Preliminary

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. Nauman Ansari
H.H. Sheikh Nahayan Mabarak Al Nahayan, Chairman – 10.72%	
H.H. Sheikh Hamdan Bin Mubarak Al Nahayan, – 8.42%	
H.E. Sheikh Suroor Bin Mohammad Al Nahyan – 7.16%	
M/s. Electro Mechanical Company LLC – 5.47%	
M/s. International Finance Corporation – 14.81%	

APPLICABLE METHODOLOGY

JCR-VIS Commercial Banks Rating http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf

Bank Alfalah Limited (BAFL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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.'17, the bank was operating out of 482 conventional branches (Sept'16: 486), 151 Islamic branches (Sept'16: 158 branches), 11 overseas branches (Sept'16: 10 branches). BAFL has exposure in four foreign countries, namely: Bangladesh, Afghanistan, Dubai and Bahrain (Wholesale Banking Unit).	Bank Alfalah Limited (BAFL) had a market share of 5.5% in domestic deposits at end-Sept'17 with strong domestic operations and franchise. Strong focus on improving deposit mix has resulted in healthy growth in CASA deposits with proportion of non-remunerative current accounts at 42.4% at end-Sep'2017 being highest amongst peer banks. Besides domestic operations, the Bank also has presence in the overseas market (Bangladesh, Afghanistan and Bahrain) and has also launched Dubai operations during the ongoing year. BAFL also enjoys a sizeable Islamic footprint with 18% contribution to total deposits at end-Sep'2017. 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. **The Instrument:** BAFL is in the process of issuing a listed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible debt instruments amounting up to Rs. 7.0b (inclusive of Green Shoe Option of Rs. 2.0b). The TFC will carry mark-up at KIBOR+1.5%. The issue proceeds will contribute towards the bank's additional Tier-1 capital and will be utilized towards enhancement of the bank's business operations. **Priority:** In terms of priority of claims, BAFL's Tier-1 instrument will rank ahead of claims of ordinary shareholders but below the bank's senior creditors, including depositors and holders of Tier 2 TFC. **Non-performance risk:** Tier-1 instruments are characterized by higher non-performance risk vis-à-vis Tier-2 instruments on account of issuer having full discretion on coupon payments, interest servicing from only profits for the year and conversion feature in the event of pre-specified trigger events in terms of regulatory requirements. While the regulatory framework may not consider a missed coupon payment as a default; the credit rating methodology employed by JCR-VIS would treat such missed payments as an event of default. In normal course of business, JCR-VIS believes that chances of non-performance risk are considered remote given healthy profitability and capital buffers which will be enhanced further post issuance of Tier-1 TFC. Despite existence of full coupon discretion, exercising the feature is not considered likely in normal course of business as it will hamper future fund raising ability of the Bank. **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. While concentration risk in advances portfolio remains, the same is mitigated by financing to government guaranteed exposures and lengthy lending relationship with most clients. Gross financing portfolio depicted an increase of 20.4% during the last one year (Sep'17 vis-à-vis Sep'16) with growth manifested in existing and new clients. Overall credit risk

profile of the Bank has improved overtime with reduction in infection levels (9M17: 4.2%; 2016: 4.8%; 2012: 8.9%), increase in provisioning coverage (9M17: 89.8%; 2016: 86.1%; 2012: 62.5%) and higher proportion of public sector exposure in advances portfolio.

Liquidity: Deposit base of the bank recorded a growth of 3.2% during 9M17. In terms of deposit growth, BAFL has pursued a consolidation strategy to further improve deposit profile and manage spreads in a low interest rate environment. Resultantly, market share has witnessed a decline over the last two years. Liquidity profile of the Bank is strong as reflected in a healthy depositor profile, improving depositor concentration levels over the last 24 months and sizeable liquid assets in relation to total deposits and borrowings (9M17: 49.4%).

Capitalization: Capitalization indicators have strengthened over time with increase in equity base on account of retained profits while Tier-1 and overall CAR (unconsolidated basis) were reported at 10.99% (2016: 9.86%; 2015: 9.59%) and 13.41% (2016: 13.18%; 2015: 13.27%) at end-9M17, respectively. On consolidated basis, Tier-1 and overall CAR were reported at 11.11% (2016: 9.95%; 2015: 9.73%) and 13.51% (2016: 13.27%; 2015: 13.4%) at end-9M17, respectively. Moreover, net-NPL in relation to tier-1 equity was reported at 3.4% (2016: 6.1%; 2015: 8.0%, 2014: 17.1%) at end-9M17.

Profitability: In contrast to top-tier banks where operating profit has witnessed a decline, BAFL recorded 8.25% increase in operating profit during FY17 on account of sizeable growth in fee commission income and cost control measures introduced by the management. Despite declining return on earning assets, the Bank was able to maintain net interest income around prior period level due to sizeable reduction in cost of deposits and volumetric growth in Balance Sheet. This along with reversal in provisions and higher income from gain on sale of securities translated in an increase in profit before tax by 14.3% during 9M17.

Bank Alfalah Limited (BAFL) Appendix I

FINANCIAL SUMMARY			Rs. billions
BALANCE SHEET	**9M2017**	**2016**	**2015**
Total Investments	401	389	423
Advances	398	379	334
Total Assets	970	917	903
Borrowings	208	178	172
Deposits & other accounts	661	641	640
Subordinated Loans	7	8	10
Tier-1 Equity	51	43	37
Net Worth(Excluding Surplus on revaluation of assets)	57	49	53
INCOME STATEMENT	**9M2017**	**2016**	**2015**
Net Mark-up Income	22	29	29
Net Provisioning	(1)	1	2
Non-Markup Income	8	9	9
Operating Expenses	18	23	23
Profit Before Tax	12	13	13
Profit After Tax	7	8	8
RATIO ANALYSIS	**9M2017**	**2016**	**2015**
Gross Infection (%)	4.2%	4.8%	5.4%
Total Provisioning Coverage (%)	89.8%	86.1%	83.7%
Net Infection (%)	0.4%	0.7%	0.9%
Cost of deposits (%)	2.56%	3.00%	4.00%
Net NPLs to Tier-1 Capital (%)	3.4%	6.1%	8.0%
Capital Adequacy Ratio (C.A.R (%))	13.41%	13.18%	13.27%
Markup Spreads (%)	3.56%	3.7%	4.2%
Efficiency (%)	64.8%	66.6%	62.9%
ROAA (%)	1.0%	0.9%	0.9%
ROAE (%)	18.1%	17.4%	19.1%
Liquid Assets to Deposits & Borrowings (%)	49.4%	52.3%	57.9%

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: 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 III**
Name of Rated Entity	Bank Alfalah Limited (BAFL)				
Sector	Commercial Bank				
Type of Relationship	Solicited				
Purpose of Rating	TFC Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
			RATING TYPE: ENTITY		
	8-Nov-17	AA-	N/A	Stable	Preliminary
Instrument Structure	BAFL is in the process of issuing a listed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible debt instruments amounting up to Rs. 7.0b (inclusive of Green Shoe Option of Rs. 2.0b). The TFC will carry mark-up at KIBOR+1.5%. The issue proceeds will contribute towards the bank's additional Tier-1 capital and will be utilized towards enhancement of the bank's business operations.				
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.				
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