RATING REPORT

Bank Alfalah Limited

REPORT DATE:
June 30, 2021

RATING ANALYSTS:
Asfia Aziz
asfia.aziz@vis.com.pk

RATING DETAILS

Rating	Latest Rating	Previous Rating
TFC (Tier-1)	AA-	AA-
Rating Outlook	Stable	Stable
Rating Date	*30th June 2021*	*30th June 2020*

COMPANY INFORMATION

Incorporated in 1992	**External auditors:** EY Ford Rhodes & Co. Chartered Accountants.
Public Limited Company	**Chairman of the Board:** 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, Chairman – 10.67%	
H.H. Sheikh Hamdan Bin Mubarak Al Nahayan – 8.38%	
H.E. Sheikh Suroor Bin Mohammad Al Nahyan – 7.12%	
M/s. Electro Mechanical Company LLC – 5.44%	
M/s. International Finance Corporation – 14.74%	

APPLICABLE METHODOLOGY

VIS Commercial Banks Methodology– June 2020
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-CommercialBanks202006.pdf

Bank Alfalah Limited

OVERVIEW OF THE INSTITUTION

Bank Alfalah Limited (BAFL) was established as a privately held bank in 1992. Currently the bank operates as a public limited company with majority shareholding held by Abu Dhabi Group.

Profile of CEO

Mr. Atif Bajwa was appointed as the President and CEO of Bank Alfalah in February 2020. Mr. Bajwa has diversified and rich experience of more than 37 years in Banking and has held various senior positions. He has been the President of MCB Bank and Soneri Bank in Pakistan, Regional Head for Citigroup for Central and Eastern Europe, Head of Consumer Banking for ABN AMRO's Asia Pacific region, and Country Manager for ABN AMRO Pakistan. Mr. Bajwa received his education at Columbia University, New York.

Profile of Chairman

His Highness Sheikh Nahayan Mabarak Al Nahayan is a prominent member of the ruling family of Abu Dhabi, United Arab Emirates. Currently, His Highness is UAE Cabinet Member and Minister of State for Tolerance. Prior to his current responsibility, he served as Minister of Culture and Knowledge Development; Culture, Youth, and Social Development and Minister of Higher Education and Scientific Research. His direct and indirect business interest spread throughout various industry sectors such as

RATING RATIONALE

Strong sponsors, diversified operations and established franchise.

Bank Alfalah Limited ('BAFL' or 'the bank') is sponsored by the Abu Dhabi Group (ADG), comprising some of the prominent members of UAE's ruling family and leading businessmen. Over the years, the bank has developed a strong franchise value. The group companies include Asset Management (Alfalah GHP Investment Management), Insurance (Alfalah Insurance), Brokerage (Alfalah CLSA Securities) and Wind Power Sector (Sapphire Wind Power Company). BAFL also has overseas operations in Bahrain, Afghanistan, Bangladesh and United Arab Emirates.

TFC (ADT-1)

BAFL issued an Additional Tier-1 instrument in March'2018. Features of the instrument are that it is listed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible debt instruments amounting Rs. 7.0b. The issue proceeds contribute towards the bank's additional Tier-1 capital and is utilized towards enhancement of the bank's business operations.

Overview of Financial and Operating performance of the Bank

The Bank's asset base witnessed a double-digit growth of 30.0% during 2020 with the mix depicting a tilt towards investments contributing 42.5% (2020: 39.5%, 2019: 28.1%) to the total resource base at end-Mar'21. Consequently, BAFL's Gross Advances to Deposits Ratio (ADR) dropped from 61.4% in Dec'19 to 55.0%, as of Mar'21, which is mainly as a result of higher deposits base. Branch network of the bank comprises 706 branches (2019: 674 branches) and 24 sub-branches (2019: 24).

Gross loan portfolio of the bank increased by 13.4% at end-2020 to Rs. 600.9b (2019: Rs. 529.9b) despite slowdown in the overall economy. Given a heightened credit risk environment, non-performing loans of the Bank increased to Rs. 25.9b (2019: Rs. 22.4b) which includes subjective classifications based on prudence. Consequently, gross infection of the bank increased to 4.3% (2019: 4.2%) at end-2020. In order to mitigate credit risk, the Bank provided for higher possible credit impairments amidst COVID-19, consequently its total provisioning coverage increased to 91.2% (2019: 83.6%) at end-2020. With reduction in quantum of non-performing loans and 1% in gross advances, gross and net infection ratios of the Bank improved to 4.18% and 1.16%, respectively at end-Mar'21.

Credit and market risk emanating from the investment portfolio is considered manageable given around 83.5% of the investment base comprising federal government securities at end-Mar'21.

The operating environment remains precarious, amidst intermittent lock downs with no definite deadline. In view of the same, the full impact of the pandemic on the industry is uncertain.

Overall liquidity risk of the institution, is considered manageable, in view of the sizable liquidity buffers. The bank's LCR and NSFR have been maintained well above the regulatory requirement reported at 185.0% (2020: 187.0%, 2019: 163.0%) and 133.0% (2020: 136.0%, 2019: 138.0%) at end-Mar'21, respectively. Deposit base of the Bank increased by 12.7% and was reported at Rs. 881.8b (2019: 782.3b) at end-2020 with improving mix of CASA on a

banking, telecom, insurance, hospitality, healthcare, construction, project financing and investment management.	timeline basis. The bank's profitability indicators declined in 2020 on the back of general provision recorded against restructured loans for COVID-19 relief scheme to mitigate credit risk and higher operating expenses. Net markup income of the Bank remained at prior year levels of Rs. 45b in 2020 given the impact of lower interest rates and certain COVID related constraints. Non-markup income of the bank increased by 23.5% to Rs. 12.8b (2019: Rs. 10.4b) primarily provided by higher capital gains on federal government securities and exchange gains. Fee commission income of the Bank decreased to Rs. 6.6b (2019: Rs. 6.9b) due to low transaction volume amidst COVID-19 and regulatory waivers on certain consumer banking fee items. Administrative expenses of the bank were reported higher at Rs. 31.4b (2019: Rs. 29.1b) during 2020 led by higher staff related expenses, IT support fee, costs incurred to gear up on PPE for safety of staff and customer, impact of inflation, along with full year impact of opening new branches last year. Given growth in admin expenses outpacing growth in recurring income, efficiency ratio of the bank weakened to 57.1% (2019: 52.8%) during 2020. Accounting for higher provision expense of Rs. 7.6b (2019: Rs. 3.0b), profit after tax of the bank decreased to Rs. 10.5b (2019: Rs. 12.7b) during 2020. The bank's capitalization metrics remain strong vis-à-vis peers, as reflected by the comfortable capital adequacy buffer wherein both tier I and total CAR exceed the regulatory requirements (RR) at 12.71% (RR- 7.5%) and 16.53% (RR- 11.5%), respectively at end-2020.

FINANCIAL SUMMARY *(amounts in PKR millions) – Annexure I*				
BALANCE SHEET	**2018**	**2019**	**2020**	**1Q21***
Investments	277,660.4	299,098.1	547,089.9	589,705.0
Net Advances	501,636.5	511,235.9	577,315.9	583,004.7
Total Assets	1,006,217.8	1,065,311.1	1,384,873.5	1,387,991.8
Borrowings	123,738.2	102,842.3	314,960.2	287,063.0
Deposits & other accounts	702,895.3	782,284.2	881,767.1	913,213.0
Subordinated Loans	11,989.0	11,987.0	7,000.0	7,000.0
Tier-1 Equity	66,810.0	73,650.0	77,210.6	77,223.2
Paid Up Capital	17,743.6	17,771.7	17,771.7	17,771.7
Net Worth (excluding revaluation surplus)	68,263.9	76,660.6	80,508.5	79,287.5
INCOME STATEMENT				
Net Spread Earned	31,926.1	44,895.7	44,704.6	10,326.5
Net Provisioning / (Reversal)	26.6	3,028.6	7,589.3	216.2
Non-Markup Income	10,431.3	10,357.4	12,794.9	3,833.4
Administrative expenses	24,312.7	29,065.7	31,442.9	8,458.0
Profit/ (Loss) Before Tax	17,618.2	22,381.8	17,878.3	5,369.6
Profit / (Loss) After Tax	10,625.2	12,695.5	10,474.9	3,470.5
RATIO ANALYSIS				
Market Share (Domestic Advances)	6.6%	6.0%	6.5%	NA
Market Share (Domestic Deposits)	5.3%	5.0%	4.5%	NA
Gross Infection	3.6%	4.2%	4.3%	4.2%
Provisioning Coverage	89.0%	83.6%	91.2%	94.0%
Net Infection	0.6%	0.9%	1.3%	1.2%
Cost of deposits	3.1%	5.0%	4.1%	3.0%
Gross Advances to Deposits Ratio	68%	61%	56%	55%
Net NPLs to Tier-1 Capital	4.4%	6.3%	9.1%	8.3%
Capital Adequacy Ratio (CAR)	14.94%	16.88%	16.53%	15.60%
Markup Spreads	4.0%	5.4%	3.5%	2.9%
Efficiency	59.1%	52.8%	57.1%	65.2%
ROAA	1.1%	1.2%	0.9%	1.0%
ROAE	16.8%	15.5%	11.7%	15.5%
Liquid Assets to Deposits & Borrowings	41.7%	49.3%	48.5%	48.2%

** Annualized*

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 DISCLOSURE	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	Rating Outlook	Rating Action
RATING TYPE: TFC (Tier 1)			
06/30/2021	AA-	Stable	Reaffirmed
06/30/2020	AA-	Stable	Reaffirmed
07/02/2019	AA-	Stable	Reaffirmed
06/29/2018	AA-	Stable	Reaffirmed
1/17/2018	AA-	Stable	Final
11/8/2017	AA-	Stable	Preliminary

Instrument Structure	Basel III compliant Tier 1, listed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible debt instruments amounting up to Rs. 7.0b.
Statement by the Rating Team	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	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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