

## The Pakistan Credit Rating Agency Limited

### RATINGS (JUNE 2009)

#### BANK ALFALAH LIMITED (BAL)

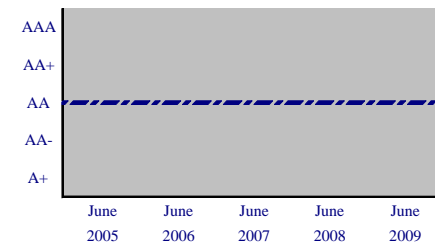
	New	Previous
<b>Entity</b>		
Long Term	AA	AA
Short Term	A1+	A1+

#### TFC Issues

##### Unsecured, Subordinated

2 <sup>nd</sup> (PKR 1,250mln)	AA-	AA-
3 <sup>rd</sup> (PKR 1,325mln)	AA-	AA-
4 <sup>th</sup> (PKR 5,000mln)*	AA-	AA-

\*Proposed



### FINANCIAL DATA

#### PKR (mln)

	Mar-09*	Dec-08	Dec-07
Total Assets	328,823	348,999	328,895
Equity	18,482	14,608	13,766
Net Income	448	1,301	3,130
ROA %	0.53	0.38	1.04
ROE %	10.8	9.2	25.7
Equity / Assets (%)	5.6	4.1	3.8
SBP CAR %	10.2	8.0	9.8

\*Based on unaudited results for three months

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### TFC ISSUES

BAL's first unsecured subordinated TFC of PKR 650mln, issued in December 2002 was fully redeemed in Dec-08. The bank issued second unsecured subordinate TFC during December 2004 for a tenor of 8 years carrying mark-up at a floating rate of latest 6-month KIBOR plus 1.5%. Major principal redemption will be in three equal semi-annual installments commencing from the 84<sup>th</sup> month of the issue (i.e. December 2011). The bank issued its third TFC in November 2005 for 8 years tenor at terms similar to the second issue. Major principal redemption, in three equal semi-annual installments, will commence from November 2012. The bank is likely to issue its fourth subordinated instrument in the near term for a tenor of 8 years.

### RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect BAL's demonstrated ability to maintain its market position in spite of the increasingly competitive landscape of the banking industry. The bank's performance is expected to benefit from its expanding franchise enabling effective advances deployment and deposit mobilization. At the same time, BAL has a higher degree of diversity in its credit exposures. Meanwhile, the ratings recognize the continuing support of financially robust sponsors as a key factor. This has been demonstrated recently with fresh equity injection that has slightly augmented the bank's traditionally stressed capital structure.
- The ratings are dependent on the bank's success to sustain its relative standing in the wake of intense competition in the banking sector, while improving its risk management systems in tandem with its expansion. Meanwhile, any material deterioration in its asset quality and/or liquidity, weakening its risk absorption capacity, would have negative implications for the ratings.

### ASSESSMENT

- During 2008, the bank's net interest revenue witnessed a significant rise, attributed to growth in the finances portfolio. There was a YoY decline in other operating income because of significant capital gains last year. BAL's cost structure, higher than peers, experienced an increase inline with network expansion. Moreover, the bank's profitability was significantly dampened by provisions on account of diminution in value of investments and recent delinquencies. During 1Q09, the bank largely maintained its performance trend with comparatively slight increase in NPLs.
- Cognizant of the weak economic fundamentals of the country, BAL intends to focus more on consolidation than striving for aggressive growth targets, going forward. The bank does not see any significant change in the advances portfolio mix, maintaining the relative proportion of corporates, SMEs and consumers (55%:16%:19% respectively). In addition, BAL plans to maintain its current advances-to-deposit ratio (~65%), avoiding any substantial pressure on its liquidity position. The recent initiative of 'Royal Banking', an attempt to make inroads into high net worth retail segment, is likely to be fully rolled out during the year. In this regard, the management is providing requisite training to its staff to be deputed in designated branches (~17). Meanwhile, BAL intends to continue expanding its branch network (planned addition: 38 branches for 2009).
- BAL is in the process of implementing Temenos (T-24) as its core banking software. There has been a delay in the implementation, owing to the difficulties faced by foreign consultants to travel to Pakistan and refinement of the extent and scope of the work as the implementation progresses (latest timeline: end-2010).
- The bank experienced a notable increase in its classified advances (Mar09: 5.5%, Dec07: 2.7%). Nonetheless, BAL's asset quality remains better among peers. Going forward, the bank may witness a rise in NPLs but this is expected to remain limited, given BAL's diversified loan book, also reflected by a low top twenty credit concentration (20%).
- BAL's investment portfolio is mainly dominated by market treasury bills (c. 70%), followed by PIBs (9%) and equities (10%). There was a revaluation loss of ~ PKR 300mln on PIBs at end-Dec08. However, with the interest rates coming down, the likelihood of any further loss is low. Equities are dominated by strategic investments (73%) – hence overall limited market risk for the bank.
- BAL, with traditionally conservative finances to deposit ratio, maintains adequate liquidity. Moreover, BAL has a diversified deposit base, with a low top twenty deposit concentration (15%).
- The bank has demonstrated the capacity to raise capital, both Tier 1 & 2, to cater for its business growth. BAL's equity-to-assets ratio, despite the right issue of around PKR 4bln in 1Q09, remained lowest amongst peers (end-Mar09:5.6%). To support its growth initiatives, the bank is in process of raising Tier II capital (PKR 5,000mln).

### PROFILE

- The bank, with a network of 282 (Conventional: 234; Islamic 48) branches and listed on all the bourses of the country, has a leading position in consumer finance, corporate finance, trade finance and working capital finance. Abu Dhabi Group (ADG), comprising some of the prominent members of UAE's ruling family, leading businessmen of UAE and their associates, owns the majority shareholding (58%) in the bank since its privatisation in 1997. The bank has investments in the communication sector and other dimensions of financial sector – brokerage, asset management and insurance.
- The seven member BoD comprises four members from ADG and three other professionals including the CEO. The chairman of the board, H.E. Sheikh Hamdan Bin Mubarak Al Nahayan, is Federal Minister of Public Works, United Arab Emirates. The current CEO, Mr. Sirajuddin Aziz, has over three decades of banking experience.