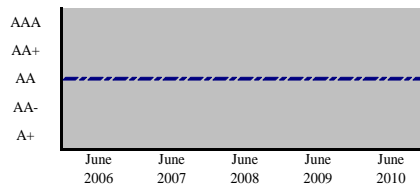


The Pakistan Credit Rating Agency Limited

RATINGS (JUNE 2010)

BANK ALFALAH LIMITED (BAL)

	New	Previous
Entity		
Long Term	AA	AA
Short Term	A1+	A1+
TFCs Issues		
<i>Unsecured, Subordinated</i>		
2 nd (PKR 1,250mln)	AA-	AA-
3 rd (PKR 1,325mln)	AA-	AA-
4 th (PKR 5,000mln)	AA-	AA-



FINANCIAL DATA

PKR (mln)

	Mar-10*	Dec-09	Dec-08
Total Assets	380,422	389,070	348,990
Equity	20,358	19,770	14,608
Net Income	586.5	897	1,301
ROA %	0.61**	0.24	0.38
ROE %	11.7**	5.2	9.2
Equity / Assets (%)	5.4	5.1	4.2
SBP CAR %	12.3	12.5	8.0

*Based on unaudited results for three months

** Annualized

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TFCs ISSUES

The bank issued its second unsecured subordinate TFCs 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 84th month of the issue (i.e. Dec-11). The bank issued its third TFCs 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 Nov-12. The fourth TFCs of the bank, with a tenor of 8 years, was issued in December 2009. Major portion of the TFCs will be repaid in three equal semi-annual installments commencing from Dec-16.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect BAL's demonstrated ability to sustain pressure on its market positioning in the wake of increasingly competitive landscape of the banking industry. The bank's asset quality, due to depressed socio-economic environment, has suffered deterioration, though infection largely remains concentrated in few segments and is aligned to the peer group. The bank's performance is expected to benefit from its expanding franchise enabling effective advances deployment and deposit mobilization. Meanwhile, the ratings recognize the continuing support of Abu Dhabi group as a key factor.
- The ratings are dependent on the bank's ability to sustain through continuing depressed macro-economic fundamentals, while improving its risk management systems in tandem with its expansion. Meanwhile, material deterioration in the asset quality, impacting both BAL's profitability and risk absorption capacity, would have negative implications for the ratings.

ASSESSMENT

- During 2009, BAL had muted growth in its net interest revenue. This was attributable to limited expansion in finance portfolio and relatively high reliance on fixed deposits, keeping the spreads under check. The fee income sustained a significant knock as the bank curtailed its focus on addition of new credit card users. Nevertheless, foreign currency income and sundry services continued supplementing the overall operating income. BAL's cost structure, higher than peers, witnessed an increase inline with inflationary trends. The bank's profitability was dampened by hefty provisions on account of increased delinquencies. During 2009, Islamic banking contribution (PBT) was highly significant (PKR 700mln), towards BAL's bottomline. During 1Q10, though BAL's pre-provision profitability stayed same, the bottomline experienced improvement with limited loan loss provisioning.
- Going forward, BAL, owing to tough socio-economic environment, plans to continue with conservative growth stance while focusing on prudent advances deployment and efficient deposit mobilization primarily CASA (~63% at end-Mar10). The bank intends to limit long term loan book and enhance its participation in working capital facilities while improving quality of collateral. Another pillar of medium term strategy is continuing fortification of the bank's outreach by opening 65 new branches.
- BAL, in the recent years, has witnessed a significant increase in non-performing loans, causing harm to its equity (NPLs/advances: De09: 8%; Dec08: 4%). This was an outcome of seasoning of the loan book and weakened economy in Pakistan. The fresh infection had a sizeable portion of stock market related delinquencies. Although likelihood of new NPLs may not be ruled out, the extent of fresh infection is expected to be limited. Meanwhile, BAL's top twenty credit concentration remains moderate (Dec09: 25%; Dec08: 20%). The bank has started implementing Temenos (T24) as its core banking software. While BAL has already shifted 20 branches to T24, the system is expected to be fully operational across the entire network by end-FY11.

- BAL maintains a sizeable investment portfolio, comprising two elements: strategic holdings (PKR 5.8bln) and non- strategic portfolio (PKR 71bln). The government securities, dominating the BAL's non strategic portfolio, comprise mainly market treasury bills (65%), government sukuk bonds – SBP ijarah, WPADA, and PIBs (~28%). BAL, compared to most peers, has a high proportion of long term securities, exposing it to interest rate risk. Strategic portfolio, dominated by the investment in the telecom sector (PKR 4.8bln), has experienced impairment, though the management remains confident of fundamental.
- BAL, with its relatively low advances-to-deposit ratio, maintains adequate liquidity. Moreover, BAL has a diversified deposit base, with a low top twenty deposit concentration (Dec09: ~17%). BAL's equity-to-assets ratio remained lowest amongst peers (end-Mar10:5.3%). However, with issuance of PKR 5bln Tier II TFCs, CAR is at a satisfactory level (end-Mar10: 12.3%).

PROFILE

- The bank, with a network of 321 branches and listed on all the bourses of the country, has a leading position in consumer finance, and trade related business. 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 in the bank. The bank has investments in the communication sector and other dimensions of financial sector – asset management, brokerage, and insurance.
- The seven member BoD comprises four members from ADG, two independent directors and 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 CEO, Mr. Sirajuddin Aziz, has over three decades of banking experience and is supported by a seasoned and stable management team.