



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Bank Alfalah Limited | TFCs | Series A**

**Report Contents**

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**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Feb-2021	AAA	-	Stable	Initial	-
06-Aug-2020	AAA	-	Stable	Preliminary	-

**Rating Rationale and Key Rating Drivers**

The rating of TFCs reflects the supreme security structure of Instrument. The Instrument is secured through lien over GoP issued securities – 10 years PIBs. The maturity of the securities is higher than the maturity of Instrument. The securities marked under lien are 105% of the issue, reflecting comprehensive coverage including any unforeseen fluctuation in prices. The Securities are placed in BAFL SGL account maintained with the State Bank of Pakistan. The Bank has entity ratings of “AA+/A1+” which reflects its strong positioning in the market. With this issuance, the bond market is expected to take a positive connection. The Bank is well positioned to benefit from the ensuing advantages. The Bank’s ratings take comfort from its diversified loan book which is maintained at a notable level; along with healthy CAR. The mix of deposits improved as the Bank added a few percentage points to the CA portion in the CASA mix. BAFL has a sound foothold with a considerable presence across the country, enabling its deposit base growth. The Bank has sustained good profit base. Overall infection ratio remained at the lower edge. The rating draws comfort from the Bank's stable ownership, experienced management team, prudent risk management policies and distinct emphasis on sustaining the position. Covid-19 pandemic has posed challenges to the banking sector, almost all segments of the economy, worldwide and domestically, are impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed. The Bank has also formed a board level Corona Crisis Management Committee in order to formulate future strategies for diminishing the financial and business risks.

Maintaining Bank's capitalization backed by strong sponsors and adding granularity to its advances and deposits book are essential. Continued effective management of spreads remains important, meanwhile, holding the asset quality is a pre-requisite.

**Disclosure**

<b>Name of Rated Entity</b>	Bank Alfalah Limited   TFCs   Series A
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   FI (Jun-20),Methodology   Debt Instrument(Jun-20)
<b>Related Research</b>	Sector Study   Commercial Bank(Jun-20)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504

**The Pakistan Credit Rating Agency Limited**

BANK ALFALAH LIMITED   TFCs   SERIES A - TERMS		INDUSTRY SNAPSHOT
<b>TFCs Series A</b>	Listed, Secured, Rated, Fixed Rate	<p>The indicators of the banking sector reflected mixed trend where economy is recovering from the effects of COVID-19 pandemic. Deposits of the banking sector stood at (9MCY20: PKR 17,543bln, CY19: PKR 15,953bln), showing a growth of ~10% in nine months as compared to ~12% growth in CY19. Deployment of funds was largely skewed towards investments and particularly towards government instruments (9MCY20: PKR 11,486bln; CY19: PKR 8,939bln). During 9MCY20, advances witnessed attrition of 1.5% owing to prudent lending approach amid COVID-19 pandemic outbreak. Asset quality saw deterioration – increased NPLs (9MCY20: PKR 853bln CY19: PKR 761bln). The profitability of the banking sector improved due to an increase in Net Interest Income, which translated positively in other profitability indicators.</p>
<b>Size of Issue</b>	PKR 11,000mln	
<b>Tenor</b>	3 Years	
<b>Profit Rate</b>	9.03% per annum	
<b>Profit Payments</b>	Semi-annually in arrears	
<b>Principal Redemption</b>	Bullet Payment at the end of 3 years	
<b>Investment Agent</b>	Pak Brunei Investment Company Ltd.	
<b>Purpose</b>	To hedge the Issuer's fixed rate assets with fixed rate liabilities	
<b>THE INSTRUMENT</b>		
<p><b>ABOUT THE TFCs:</b> The Bank has planned for the issuance of Rated, Secured, Listed, Redeemable Term Finance Certificates (TFCs), having total approved Issue Size of up to PKR 50bln. Issue size of current tranche Series A is PKR 11bln. The tenor of Series A is 3 years where rate is 9.03% per annum. Profit is payable semi-annually in arrears on the outstanding principal amount, based on 365 days a year and on non-cumulative basis. The first coupon profit payment will fall due six months from issue date (i.e. January15, 2021) and subsequently every six months thereafter. Interim Coupon Payment shall be equal to profit on investment amounts invested by each investor from date on which such investment amounts are received by Issuer until the date which is one day prior to Issue Date.</p> <p><b>SECURITY:</b> TFCs amount is secured against lien over 10 years PIB floater of PKR 12bln maintained in the SGL Account No. 10016-1, which is in excess of the amount required as per the arrangement (105% of the Tranche Series A issue amount). The maturity profile of the PIBs kept under lien exceeds the maturity of the TFC, eliminating the need to replenish the PIBs during the tenor of the instrument. The Investment Agent may from time to time request other documents or accept additional assets, instruments, encumbrances as may reasonably be requested/ offered for the purpose of fully perfecting the Security created in favor of the Investment Agent. In order to safeguard the interests of the TFCs holders, Pak Brunei Investment Company Limited has been appointed to act as an Investment Agent.</p>		
<b>THE ISSUER</b>		
<p><b>PROFILE:</b> Bank Alfalah Limited was incorporated as a public limited company, in 1992, and is listed on Pakistan Stock Exchange. In collaboration with International Finance Corporation (IFC) - a member of the World Bank Group - the Bank altered its model from only offering credit services to providing a complete range of banking services to SME customers. Since its inception, Bank Alfalah has grown rapidly to become Pakistan's one of the largest private bank, the largest issuer and acquirer of credit cards and one of the largest Islamic Banking businesses in the country while the head office is situated in Karachi.</p> <p><b>OWNERSHIP:</b> The Bank is majority owned by the Abu Dhabi Group (ADG) (49.03%), rest is owned by IFC (14.74%), Mutual funds, other NBFIs (27.5%) and General public (8.73%).</p> <p><b>BOARD STRUCTURE:</b> BAFL's board comprises of eight members including President/CEO and seven non-executive directors, out of which four are representatives of ADG, one is an IFC nominee, while two members are independent. Chairman of the board, H.H. Sheikh Nahayan Mabarak Al Nahayan, is a prominent member of the ruling family of Abu Dhabi, UAE. He owns substantial business interests, hotels and other investments in the UAE, Pakistan, Africa, USA and Central Asia.</p> <p><b>MANAGEMENT:</b> Bank's senior management team comprises experienced bankers having national and international exposure. The CEO/ President, Mr Atif Bajwa is a seasoned banker having over three decades of experience of local and multinational banks.</p> <p><b>FINANCIAL TRANSPARENCY:</b> The external Auditors of the Bank, M/s EY Ford Rhodes, Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for 2019. PACRA has assigned AA+/ A1+ (Double A plus and A one plus) ratings to Bank Alfalah as on 26th Jun'20.</p>		
<b>RISK PROFILE</b>		
<p><b>ADVANCES AND DEPOSITS:</b> As of 9MCY20 net advances of the Bank were reported at PKR 495.9bln (CY19: PKR 511.2bln), constituting around 39.9% of the Bank's total assets; showing a decline majorly owing to a decrease in Islamic financing by 10.7%. The Bank upheld its position in the banking sector with share in customer deposits of the sector at 5.0%. Bank's focus has been on improving deposit base and managing spreads throughout, total deposits were reported PKR 820.1bln as of 9MCY20 (CY16: PKR 782.3bln); growth is mainly driven by surge in current account part of CASA mix.</p> <p><b>PERFORMANCE:</b> The Bank reported markup income of PKR 71.7bln for 9MCY20 with a growth of 8.0% as compared to the corresponding period last year. Of this increase, income from investments constitutes a major chunk, increasing by 99.9% to PKR 28bln (9MCY19: PKR 14bln). Whereas, income from loans and advances fell by 7.6% to PKR 39.2bln (9MCY19: PKR 42.5bln). Provisions against loans &amp; advances expense was recorded at PKR 6.3bln, which was significantly higher than the expense of corresponding period last year of PKR 2.0bln. Consequently, profit after tax declined by 9.9% during 9MCY20 to PKR 8.3bln (9MCY19: PKR 9.2bln).</p> <p><b>CAPITAL AND LIQUIDITY:</b> As on 9MCY20, Bank's CAR stood at 18.4% (CY19: 16.9%), which is well-above the regulatory requirement of SBP. Higher quality of capital is evident from Bank's ratio; Common Equity Tier-I (CET-I) to Total Risk Weighted Assets (RWA), which comes to 14.1% against the regulatory requirement of 6.0%.</p>		



PKR mln

**Bank Al Falah Limited**  
**Listed Public Limited**

Sep-20	Dec-19	Dec-18	Dec-17
9M	12M	12M	12M

**A BALANCE SHEET**

1 Total Finances - net	516,337	515,092	508,254	408,224
2 Investments	518,668	291,560	268,977	392,112
3 Other Earning Assets	61,771	87,143	75,107	59,786
4 Non-Earning Assets	146,417	167,195	151,814	137,653
5 Non-Performing Finances-net	589	3,682	2,066	1,052
<b>Total Assets</b>	<b>1,243,782</b>	<b>1,064,672</b>	<b>1,006,218</b>	<b>998,828</b>
6 Deposits	820,066	782,284	702,895	644,985
7 Borrowings	241,175	114,829	135,727	212,185
8 Other Liabilities (Non-Interest Bearing)	88,807	79,531	91,948	75,859
<b>Total Liabilities</b>	<b>1,150,048</b>	<b>976,645</b>	<b>930,571</b>	<b>933,028</b>
<b>Equity</b>	<b>93,733</b>	<b>88,028</b>	<b>75,647</b>	<b>65,800</b>

**B INCOME STATEMENT**

1 Mark Up Earned	71,736	92,481	59,672	56,176
2 Mark Up Expensed	(37,269)	(47,623)	(27,746)	(27,199)
3 Non Mark Up Income	10,024	10,396	10,431	9,277
<b>Total Income</b>	<b>44,491</b>	<b>55,253</b>	<b>42,357</b>	<b>38,253</b>
4 Non-Mark Up Expenses	(23,877)	(29,843)	(24,713)	(24,964)
5 Provisions/Write offs/Reversals	(6,279)	(3,029)	(27)	616
<b>Pre-Tax Profit</b>	<b>14,335</b>	<b>22,382</b>	<b>17,618</b>	<b>13,906</b>
6 Taxes	(6,004)	(9,686)	(6,993)	(5,539)
<b>Profit After Tax</b>	<b>8,331</b>	<b>12,696</b>	<b>10,625</b>	<b>8,367</b>

**C RATIO ANALYSIS**

**1 Performance**

Net Mark Up Income / Avg. Assets	4.0%	4.3%	3.2%	3.0%
Non-Mark Up Expenses / Total Income	53.7%	54.0%	58.3%	65.3%
ROE	12.2%	15.5%	15.0%	13.3%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	7.5%	8.3%	7.5%	6.6%
Capital Adequacy Ratio	18.4%	16.9%	15.0%	13.8%

**3 Funding & Liquidity**

Liquid Assets / (Deposits + Borrowings Net of Repo)	52.3%	42.6%	39.5%	43.3%
(Advances + Net Non-Performing Advances) / Deposits	60.5%	65.4%	71.4%	62.1%
CA Deposits / Deposits	46.0%	43.4%	40.9%	45.3%
SA Deposits / Deposits	35.2%	32.4%	34.5%	33.6%

**4 Credit Risk**

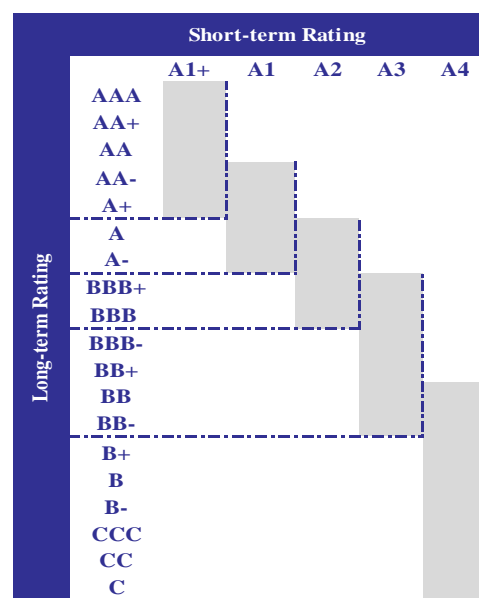
Non-Performing Advances / Gross Advances	4.8%	4.2%	3.6%	4.2%
Non-Performing Finances-net / Equity	0.6%	4.2%	2.7%	1.6%

**Credit Rating**

Credit rating reflects forward-looking opinion on credit worthiness of underlying debt instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA	
AA-	
A+	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A	
A-	
BBB+	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B	
B-	
CCC	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion on debt instrument is carried out on an ongoing basis till the maturity of the instrument or cessation of contract. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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## Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security (PKR)	Nature of Assets	Trustee	Book Value of Assets (PKR)
Listed, Rated and Secured fixed rate redeemable capital instrument	11,000 Mln	3 years	TFCs amount is secured against lien over 10 years PIBs floater maintained in the SGL Account No. 10016-1, being the amount equal to 105% of the Tranche Series A	12,000 Mln	10 YR PIB Floater	Pak Brunei Investment Company Ltd.	12,038 Mln

Name of Issuer	Bank Alfalah Limited
Issue Date	15-Jan-21
Maturity	15-Jan-24

Due Date Principal	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate - p.a.	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln				PKR in mln		
Issuance							11,000
15-Jul-21	11,000	-	15-Jul-21	9.03%	497	497	11,000
15-Jan-22	11,000	-	15-Jan-22	9.03%	497	497	11,000
15-Jul-22	11,000	-	15-Jul-22	9.03%	497	497	11,000
15-Jan-23	11,000	-	15-Jan-23	9.03%	497	497	11,000
15-Jul-23	11,000	-	15-Jul-23	9.03%	497	497	11,000
15-Jan-24	11,000	11,000	15-Jan-24	9.03%	497	11,497	-
		<b>11,000</b>			<b>2,980</b>	<b>13,980</b>	