

Press Release

VIS Reaffirms Entity Ratings of Bank Alfalah Limited

Karachi, July 02, 2019: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Bank Alfalah Limited (BAFL) at 'AA+/A-1+' (Double A Plus/A-One Plus). Rating of BAFL's Basel 3 Tier-1 debt instrument has also been reaffirmed at 'AA-' (Double A Minus). Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on June 29, 2018.

Ratings assigned to BAFL take into account an element of potential sponsor support, given that majority shareholding is held by the Abu Dhabi Group, which is a diversified business conglomerate owned by the Abu Dhabi Royal Family. Furthermore, the ratings reflect BAFL's established franchise in the domestic market, as well the bank's overseas operations – situated in Bangladesh, Afghanistan, Bahrain and United Arab Emirates – which contributed 8.6% of the bank's pre-tax profits in 2018 (2017: 7.2%). The bank has operations across various business areas such as Asset Management (Alfalah GHP Investment Management), Insurance (Alfalah Insurance) and Brokerage (Alfalah Securities). The ratings are also supported by a corporate governance profile, which largely complies with best practices.

In 2018, the bank's bottom line grew by 27% to Rs. 10.6b (2017: Rs. 8.4b). The bank achieved strong growth in revenues, through a combination of volumetric growth in earning assets, improvement in spreads and healthy increase in ancillary income. On the other hand, the bottom line also benefited from the drop in operating expenses, as a result of which the bank's efficiency ratio has improved.

Given issuance of Rs. 7b Additional Tier I TFC in 2018, the bank's capitalization has been reinforced and the CAR, as of Mar'19, was comfortably compliant with our criteria for 'AA+' rated banks. The credit quality of the advances portfolio draws support from the fact that much of the portfolio constitutes corporate clientele, mainly large-sized blue-chip companies with low probability of default. Overall counterparty concentration is within the acceptable threshold. Asset quality indicators have continued to improve, with net infection standing at 0.5% as of Mar'19. Given the heightened credit risk environment, some credit impairment is expected within the short to medium term horizon, which will test BAFL's underwriting quality. So far, as of Mar'19, we have not noted any material change in gross NPLs.

Given a strategy of branch consolidation and deposit cost rationalization, BAFL's market share, in terms of deposits, stood at 4.9% as of Mar'19 (Dec'17: 5.0%).

For further information on this rating announcement, please contact the undersigned (Ext: 201) at 021-35311861-70 or fax to 021-35311872-3.

Javed Callea
Advisor

Applicable rating criterion: Commercial Banks Methodology – March 2018

<http://vis.com.pk/docs/Meth-CommercialBanks201803.pdf>

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