



Date

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Analyst

Muhammad Azmat Shaheen
azmat.shaheen@pacra.com
+92-42-35869504
www.pacra.com

Applicable Criteria

- Methodology | Debt Instrument Rating | Jun-21
- Methodology | Financial Institution Rating | Jun-21
- Criteria | Rating Modifiers | Jun-21

Related Research

- Sector Study | Commercial Bank | Jun-22

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PACRA Assigns Initial Instrument Rating to Bank Alfalah Limited | Additional Tier-I | PKR 7bln

Rating Type	Debt Instrument
	Current (29-Jun-22)
Action	Initial
Long Term	AA-
Short Term	-
Outlook	Stable
Rating Watch	-

Bank Alfalah is an active player in the lending market. Its presence around different segments of advances book is also meaningful. The ratings reflect the bank's improved performance, good asset quality, strong financial profile and healthy liquidity. Asset quality improved as NPLs remained intact and overall infection ratio declined. In line with Bank's overall Growth Strategy, Gross Advances of the Bank have increased by ~16% on YoY basis, contributing to increase in Risk Weighted Assets; along with regular dividend payouts during the year; thereby CAR stood at 14.43% (CY20: 16.53%). The Bank is adequately capitalized, with CAR level well above the Regulatory threshold. The bank's advances have improved to a notable level, resulting in a distinguished ADR (Net Advances to Deposits) of 59.2%. In line with the industry, BAFL's cost of funds also declined during 2021, which is attributed to the low policy rate for majority portion of the year and focus on building CASA book. PAT of the Bank increased by 35.7%. The rating draws comfort from the Bank's stable ownership, experienced management team, prudent risk management policies and distinct emphasis on improving the position. Going forward, the macro-economic environment is beset with myriad challenges due to heightened interest rate, tightening of demand, rupee depreciation and higher infection. This has repercussions for the entire system including banking.

The growth trajectory of the bank especially nurturing of the deposit & advances base and enriching the granularity would be considered positive.

About the Entity

Bank Alfalah Limited has a network of 790 branches, at end Dec21, across more than 200 cities. Main sponsor comprises some of prominent members of UAE's ruling family and leading businessmen of UAE (49.79%) in the bank. BAFL's BoD comprises 8 members including President & CEO and seven Non-Executive Directors, of which four of whom are representatives of sponsoring group. Mr. Atif Bajwa (President & CEO) carries an extensive international career spanning more than 39 years of executive leadership roles.

About the Instrument

Bank Alfalah Limited has issued an Additional Tier-I Term Finance certificate amounting to PKR 7bln. The instrument is listed, unsecured, perpetual, non-cumulative and contingent convertible. The issue contributes towards supporting the Bank's Capital Adequacy Ratio (CAR) by strengthening additional Tier-I Capital as per guidelines set by SBP. Mark-up will be payable semi-annually in arrears on outstanding principal amount @6MK+1.5%. The TFCs may be recalled and replaced with similar or better-quality capital, subject to SBP approval, after five years from the issue date on principal redemption date or thereafter, subject to call option condition. As per lock-in clause requirement, neither profit nor principal would be payable (even at maturity), if such payment will result in a shortfall in Bank's minimum capital requirement (MCR), leverage ratio (LR) or CAR or results in an increase in any existing shortfall in MCR, LR or CAR. The TFC is subject to a loss absorbency clause, which upon the occurrence of Non-Viability event, SBP may fully or permanently convert the TFCs into common shares of the Bank.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.