

Date

14-Feb-23

Analyst

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

Applicable Criteria

- Methodology | Financial Institution Rating | Jun-22
- Methodology | Debt Instrument Rating | Jun-22
- Methodology | Rating Modifiers | Jun-22

Related Research

- Sector Study | Commercial Bank | Jun-22

Disclaimer

This press release is being transmitted for the sole purpose of dissemination through print/electronic media. The press release may be used in full or in part without changing the meaning or context thereof with due credit to PACRA

PACRA Assigns Initial Instrument Rating to Bank Alfalah Limited | Additional Tier 1 TFC | PKR 7bln | Dec'22

Rating Type	Debt Instrument
	Current (14-Feb-23)
Action	Initial
Long Term	AA-
Short Term	-
Outlook	Stable
Rating Watch	-

Bank Alfalah Limited ("BAFL" or the "Bank") 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 performance, asset quality, strong financial profile and healthy liquidity. In line with the Bank's overall growth strategy, as on Sep'22, the net advances of the Bank have increased by 15.3% YoY basis, contributing to increase in Risk Weighted Assets; along with regular dividend payouts, thereby CAR stood at 14.49% as of Sep'22 (CY21: 14.43%), well above the Regulatory threshold. The bank's advances have improved, However, the ADR (Advances to Deposits) decreased to 53.8% as of Sep'22 (Dec'21: 59.2%). Policy rates are continuously rising in CY22 increasing the Bank's cost of funds. PAT of the Bank increased by 34.4% and stood at PKR 14.1bln during 9MCY22 (9MCY21: PKR 10.5bln). In order to support the Bank's growth plans and expansion strategy, the Bank has issued additional tier-I capital amounting PKR 7bln. The additional tier-I is exposed to non-payment (principal & interest) risk in case the CAR falls below the minimum regulatory requirements. Being non-cumulative in nature, the interest payment falling due during that specific period wouldn't be paid to the investors as per the regulatory disclosures. Going forward, the macro-economic environment is beset with myriad challenges due to heightened interest rate, tightening of demand, rupee depreciation and higher infection. The growth trajectory of the bank especially nurturing of the deposit & advances base and enriching the granularity would be considered positive.

About the Entity

BAFL has a network of 857 branches, at end Sep'22, 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. Subsequent to the buyback of shares in Dec'22, the pattern of shareholding has changed.

About the Instrument

The Bank issued an Additional Tier-I Term Finance certificate amounting to PKR 7bln. The instrument is privately placed, 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 is payable semi-annually in arrears on outstanding principal amount @6MK+2.0%. 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.