

## Date

27-Jun-23

## Analyst

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## 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-23

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## PACRA Maintains Debt Instrument Rating of Bank Alfalah Limited | Additional Tier 1 TFC | 7bln

Rating Type	Debt Instrument	
	Current (27-Jun-23)	Previous (29-Jun-22)
Action	Maintain	Initial
Long Term	AA-	AA-
Short Term	-	-
Outlook	Stable	Stable
Rating Watch	-	-

The ratings highlight the bank's improved performance, strong financial profile, good asset quality, and healthy liquidity. As a customer-centric bank with a focus on technological advancement, the Bank has a strong nationwide presence, enabling it to capture a significant share in ADC and digital transactions. There has been a slight deterioration in asset quality as subjective non-performing loans increased, resulting in an infection ratio of 4% (CY21: 3.5%). Despite regular dividend payouts, the bank's CAR stood at 13.83% (compared to 14.43% in CY21). The bank has achieved a notable level of advances, resulting in a distinguished Net Advances to Deposits Ratio (ADR) of 49.3% as at end-Dec'22. Bank Alfalah's growth strategy has led to an approximately 9.5% YoY increase in gross advances, contributing to an expansion in risk-weighted assets. The cost of funds increased in line with industry trends due to the prevailing high policy rate for the year. The bank's profitability has reflected significant growth, with a 28.1% increase in profit after tax (PAT). The effective implementation of the long-term business strategy, coupled with stable ownership, an experienced management team, prudent risk management policies, and improving its market position, provides confidence in the bank's performance.

The bank's growth trajectory, particularly in terms of nurturing its deposit and advances base while enhancing granularity, is viewed positively.

### About the Entity

Bank Alfalah (the "Bank" or "BAFL"), established in 1992, has undergone impressive growth to emerge as a prominent private commercial bank in Pakistan. With an extensive network spread over 200 cities in Pakistan, encompassing 906 branches, 1,392 ATMs, and CDMs/CCDMs. The majority ownership of BAFL lies with the Abu Dhabi Group, holding a stake of 56.16%. Other stakeholders include Mutual Funds, NBFCs, FIs, DFIs, individuals (43.69%), and executives (0.15%). The Abu Dhabi Group comprises prominent members of UAE's ruling family and leading businessmen with investments globally, including Pakistan, Bangladesh, the Middle East, Europe and the US.

### About the Instrument

BAFL has issued a listed, unsecured, perpetual, non-cumulative and contingent convertible, Additional Tier-I TFC amounting to PKR 7bln. The TFC is exposed to non-payment (principal & interest) risk in case the CAR falls below the regulatory requirements. 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. 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 MCR, leverage ratio (LR) or CAR or results in an increase in any existing shortfall in MCR, LR or CAR. 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. 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.