



Rating Action

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PACRA Maintains Entity and TFCs Ratings of Bank Alfalah; Outlook is Positive

PACRA has maintained the long-term and short-term entity ratings of Bank Alfalah Limited (BAFL) at "AA" (Double A) and "A1+" (A One Plus), respectively. The ratings of two unsecured subordinated TFCs issues, of PKR 5bln each, have been maintained at "AA-" (Double A minus). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payments. Outlook on these ratings is "Positive".

Ratings reflect BAFL's sound business profile emanating from its established market position (sixth largest bank with ~6% system share in deposits) and healthy profitability. The bank enjoys extended outreach across the country which has augmented its deposit base over the years. Operating cost structure, though still higher than peers, has improved on YoY basis on account of cost rationalization and steady revenue growth. Despite accretion in gross infected portfolio, success in recoveries benefitted BAFL's asset quality. Going forward, the management is focused to grow prudently; this implies consolidating its position on the competitive banking landscape as against merely focusing on system share. The strategy has a focus on bringing down cost of deposits. Key initiatives include: (i) introducing technology led products - mobile wallet - mainly to tap current account, (ii) focus on SME through transactional banking, and (iii) shift from conventional to digital banking model; setting up of 'smart branches' is on cards, aiming to improve cost structure. Despite consistent improvement in the bank's profitability, capital augmentation remained limited - a factor of dividend payout. Cognizant of the fact, the management intends to improve its Tier-I capital through profit retention, thereby creating cushion to regulatory capital. The ratings recognize demonstrated support of Abu Dhabi group (ADG) as a key factor.

The ratings are dependent on the management's ability to uphold its business profile; effective implementation of strategy is important. Strengthening of the bank's capitalization and adding granularity to its advances and deposits book are critical for ratings improvement.

About the Bank: Bank Alfalah Limited (BAFL) has a network of 653 branches, at end-Mar16, including 158 Islamic banking branches - the biggest network by any conventional bank. Abu Dhabi Group (ADG), comprising some of the prominent members of UAE's ruling family, leading businessmen of UAE, continues to own majority stake (52% at end-Dec15) in the bank.

The eight-member BoD comprises President & CEO and seven NEDs, four of whom are representatives of ADG, one represents IFC, while two are independent. Mr. Atif Bajwa, the President, has over thirty years of banking experience. He is supported by a seasoned management team.

About the TFCs: BAFL has two unsecured and subordinated TFCs in issue. TFC IV and V of PKR 5bln each, were issued in Dec09 and Feb-13, respectively. With 8yrs of tenure each, principal repayment of TFC-IV would be in three equal installments commencing from Dec16 while TFC-V would be repaid in bullet form at the time of maturity (Feb21).

Applicable Criteria and Related Research

- Banking Sector - Viewpoint | Dec-15
- Bank Rating Methodology

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