

RATING REPORT (Surveillance)

Bank Alfalah Limited (Bangladesh Operation)

Ratings

Long Term	: A₃
Short Term	: ST-2
Date of Rating	: 22 June 2010
Valid Till	: 30 June 2011

Previous Ratings

Long Term	: A₁
Short Term	: ST-2
Date of Rating	: 16 April 2009

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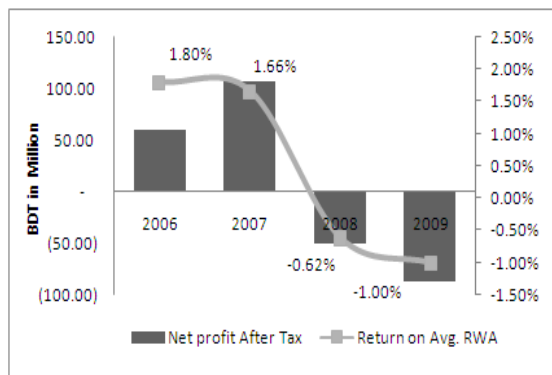
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Exhibit: Financial Highlights

Particulars	2009	2008	2007
ROAA (After Tax)	-0.80%	-0.46%	1.14%
Return on Avg. RWA*	-1.00%	-0.62%	1.66%
RWCAR (Basel I)	23.55%	20.27%	17.50%
Cost to Income Ratio	143.48%	66.63%	46.17%
Gross NPL Ratio	4.08%	3.43%	0.84%
SMA to Total Loans	1.56%	0.57%	1.40%
Loans to Deposit Ratio	74.14%	78.95%	76.69%

*after tax


01. RATIONALE

Credit Rating Agency of Bangladesh Limited (hereinafter referred to as CRAB) has awarded “**A₃**” (pronounced **Single A Three**) rating in the long-term and “**ST-2**” rating in the short-term to Bank Alfalah Limited (hereinafter also referred to as BAF or the Bank). CRAB performed the present rating based on audited financial statements of 31 December 2009 and other relevant information.

Commercial Banks rated **A₃** in the long term belong to ‘strong capacity’ cohort. Banks rated **A₃** have strong capacity to meet their financial commitments but are more susceptible to the adverse effects of changes in circumstances and economic conditions than Banks rated in higher category. **A₃** rated banks are judged to be of high quality and are subject to low credit risk.

Commercial Banks rated in the short-term **ST-2** category are considered to have strong capacity for timely repayment of obligations. Commercial Banks rated in this category are characterized with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds.

Bank Alfalah Limited was incorporated in 1992 as a public limited Company in Pakistan and commenced its banking operations from 1997. The Bank started its operation in Bangladesh on 16 May 2005 by acquiring Shamil Bank of Bahrain’s Dhaka branch operations. The principal activities of the Bangladesh Branches are to provide all kinds of commercial banking services to the customers based on Islamic banking principles from its Motijheel branch and conventional banking services from Gulshan, Dhanmondi, Agrabad, and Sylhet branches. On 31 December 2009, the Bank

operated with a network of 5 branches in Bangladesh.

BAF's major income was generated from net interest income (average 51.70% period: 2006-09) followed by non-funded incomes (average 26.52% period: 2006-09) like fees, commission etc. Like the previous year, in 2009 BAF's operating income experienced negative growth of 51.26%. In 2008, such growth was -3.98%. Due to low growth in all the areas of income except investment income in 2009 was liable for such negative growth.

Although operating income of the Bank in 2009 had negative growth, operating expenditure increased almost 5% and operating expenditure turned higher than operating income. As a result, for the first time the Bank experienced loss from its operation. BAF's operational efficiency is deteriorating year by year which was indicating through continuing three years upward trend of cost to income ratio (2009: 143.48%, 2007: 46.17%).

Profitability ratios of BAF are not very much satisfactory for the year 2009, which was continuing from 2008. NIM of the Bank decreased by 2.32 percent in 2009 due to decrease in interest spread. ROAA, ROAE, net profit margin, and return on average RWA comes negative because of net loss occurred by the Bank in successive two years. The Bank tried to improve its leverage position in last few years where they reduced its leverage position to 5.94 times in 2009 from 7.55 times in 2007.

BAF is mainly funded through customer deposits. However, BAF achieved very low growth of deposits from last few years of operation; and in 2009, such growth was -13.91%. The high cost fixed deposits, which comprised major portion of the portfolio, increased the average cost of fund. Bank's cost of fund during 2009 was 9.59%, which was 10.15% in 2008 due to decline in the share of term deposits to 75.28% from 78.07% in the same period. Advances to Deposits ratio of the Bank was 74.14% in 2009.

During 2009, BAF experienced negative growth in loans & advances (-19.16%) which reached BDT 5,655.4 million from BDT 6,995.5 million in 2008. Industry wise concentration in the same period shows that, concentration on most of the sector had declining trend, and the Bank changed its concentration area (2009: Iron & steel; 2008: Textile, yarn & spinning).

Credit quality of BAF had a downward trend in the last couple of years, and had some little improvement in 2009. Bank's total gross non-performing loan (NPL) in amount decreased to BDT 236.20 million in 2009 from BDT 240.10 million in 2008. However, gross NPL ratio increased in the same period due to negative growth in loans and advances. In 2009, the Bank also showed improvement through reducing fresh NPL generation. SMA to total loans & advances of the Bank however increased to 1.56% (2008:0.57%). BAF maintained required provisions against loans and advances.

BAF is consistently focused on investments. In 2009, investment held 6.53% of the Bank's total assets, which was only 2.79% in 2008. Bank's proportion of risk free investment (govt. securities) increased in 2009, reaching 63.47% of total investment (2008:0.05% of total investment). Major part of such investment was in Treasury bill. Significant portion of Investment is made through other securities by the Bank. In 2009, BDT 248.58 million fell in this portion, which was BDT 315.00 million in 2008.



The Bank is well capitalized with risk weighted capital adequacy ratio of 23.55% by the end of 2009 (2008: 20.27%) against regulatory requirement 10%. Capital Adequacy ratio under Basel II was also above 8% by the end of 2009.

The rating reflects the Bank's strength in liquidity, capital adequacy, slight improvement in asset quality as well as continuous support of the parent company to bailout from last two years unsatisfactory performance. The rating however, is constrained by declining overall profitability of the Bank, negative growth on loans & advances and deposits & borrowing, relatively small business operation and lack of earning diversification.

