

Company Update

Bank Alfalah Limited (BAFL)

Commercial Banks

BAFL: 2QCY22 Corporate Briefing Takeaways

- To recall, the bank reported net-interest income of PKR 17.9bn (up by +53%) and non-interest income of PKR 6.5bn (up by +61%), a solid growth after repricing of well positioned asset book, Fee and FX income.
- As per the management, net investment book is well positioned to benefit from the rising interest rate environment.
- During 2qCY22, bank's net advance loans stood at 726bn (+18%) compared to last year of 613.4bn, taking its gross ADR to 57.3% compared to last year gross ADR of 66.5%.
- Total deposit base of the bank reached to PKR 1319bn at the end of 2q2CY22, compared to last year same period of PKR 1026bn (+29%), thus taking its overall market share to 5.3%.
- Going forward the bank aims to further improve its deposit base by pursuing the strategy of above industry deposit growth with focus on building CA deposits, in addition to consumer products and SME financing.

Bank Alfalah Limited (BAFL) held its 2QCY22 corporate briefing session on 12th of August, 2022. We highlight some of the key takeaways from the meeting.

BAFL reported EPS of PKR 2.1 during 2qCY22, up by +6%yoy and -1%qoq

To recall, the bank reported earnings of PKR 3.7bn, which is quite lower compared to last quarter's earnings of PKR 5bn, and a marginal increase when compared with PKR 3.5bn reported last year same period. The bank also announced an interim dividend of PKR 2.5/share.

Exhibit: Financial Highlights Bank Alfalah Ltd. (BAFL)

Latest result published for 2QCY22

Period (PKRbn)	2q'22	1q'22	2021	4q'21	3q'21	2q'21	1q'21	2020
Net Interest Income	17.9	14.3	46.0	12.2	11.9	11.7	10.3	44.7
Fee Income	2.7	2.5	8.2	2.2	2.0	2.0	1.9	6.6
Treasury Income	3.8	1.7	8.1	2.6	1.5	2.1	1.9	6.1
Non-Interest Income	6.5	4.4	16.5	4.9	3.6	4.0	3.8	12.8
Total Revenue	24.4	18.7	62.5	17.0	15.5	15.7	14.2	57.5
Operating Expenses	(11.7)	(10.4)	(36.8)	(9.9)	(9.3)	(9.1)	(8.6)	(32.0)
Provision charge	(3.7)	(0.4)	(2.3)	(0.9)	(0.3)	(0.9)	(0.2)	(7.6)
Tax Charge	(5.3)	(2.8)	(9.2)	(2.5)	(2.4)	(2.3)	(1.9)	(7.4)
Profit After tax	3.7	5.0	14.2	3.7	3.5	3.5	3.5	10.5
EPS	2.1	2.8	8.0	2.1	2.0	1.9	2.0	5.9
DPS	2.5	0.0	4.0	2.0	0.0	2.0	0.0	4.0

Source: Company accounts, IGI Research, PSX

No. of shares: 1777.1mn

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- **Revenue:** During the quarter the bank reported net interest income of PKR 17.9bn (up by +53%) and non-interest income of PKR 6.5bn (up by +61%), a solid growth after repricing of well positioned asset book, Fee income led by card, higher disbursements of government Ehsaas Funds, trade/remittances flows, higher Banca business and ADC transactions. Moreover, income was further strengthened by FX income that was doubled on back of better trade and

remittances volumes. As a result, total revenue of the bank stood at PKR 24.4bn (up by +55%y).

- **Operating Expenses:** Moreover, the bank recorded well managed operating expenses of PKR 11.7bn (up by +29%y) despite expansionary initiatives, PKR depreciation and high inflation. With robust revenue growth, bank's cost/income ratio improved to 48% (last year: 58%).
- **Provisioning:** In addition to that, the bank booked a provisioning charge of PKR 3.7bn during 2QCY22 compared to last year provision charge of PKR 0.9bn, reflecting few downgraded customers and prevailing economic situation.
- **Taxation:** During the 2nd quarter of the current financial year, government imposed additional super tax on banks that affected overall banking industry profits; BAFL is no exception, and has witnessed a significant drop in ROA and ROE despite higher PBT this quarter.
- **Investments:** As per the management, net investment book is well positioned to benefit from the rising interest rate environment. Total investment size as of Jun-22 stood at PKR 946bn (a decent change compared to last year that was PKR 809bn, +24%y) of which the bank heavily skewed toward floating PIBs, almost 82% of total investment portfolio, the rest invested in fixed PIBs and T-Bills. On average floaters are yielding 14%, while TBs yielding over 14%. Repricing of PIBs is roughly 1 month on average. Full impact of asset repricing owing to 275bps hike in policy rate is yet to come in next quarters.
- **Advances:** During 2qCY22, bank's net advances loans stood at 726bn (+18%y) compared to last year same period of 613.4bn, taking its gross ADR to 57.3% compared to last year gross ADR of 66.5%, yet still above threshold of attracting penal tax rates. Mostly driven by retail, Islamic, and SBP backed loans. The yield in advances surged to 10.1% compared to 8.6% last year same period. In addition, prudent risk management ensured lower provisions and significant reductions in NPLs (3.5%, down from 3.9% last year).
- **Deposits:** Total deposit base of the bank reached to PKR 1319bn at the end of 2q2CY22, compared to last year same period of PKR 1026bn (+29%y), thus taking its overall market share to 5.3%. Current Accounts grew by 26% as the bank focuses on market penetration and branch expansion and the mix improved to 45.5%.
- **Capital:** Bank's Capital Adequacy Ratio (CAR) dropped to 14.6% from 15.4% in 2qCY21, yet comfortable from management's perspective.

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