The Pakistan Credit Rating Agency Limited

BANK AL HABIB LIMITED (BAHL)

RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-term	AA+	AA+
Short-term	A1+	A1+
Privately Placed TFC-V	AA	AA
Privately Placed TFC-VI	AA	
Outlook	Stable	Stable

DECEMBER 2017

Assets:

- The bank's liquidity, in terms of its Liquid Assets-to-Deposits and Borrowings ratio, decreased slightly on YoY basis: to 63% at end-Sep17 (end-Sep16: 66%).
- BAHL's advances portfolio constitutes 35% of total assets at end-Sep'17 (end-Sep'16: 33%).
- The ADR increased to 45% (end-Sep'16:41%).

Funding

- The bank's deposit base has witnessed a steady growth over the past few years; (end-Sep17: PKR 671bln, end-Dec 16: PKR 584bln, end-Dec15: PKR 516bln).
- The main source of BAHL's funding is its deposit base comprising 82% of total liabilities at end-Sep17 (end-Sep16: 84%).

Credit Risk

- Owing to bank's prudent approach towards provisioning, its coverage ratio stands at 138%.
- NPL's stood at PKR 5,781mln leading to an infection ratio of 1.8% (end-Sep 16 2.3%).

Market Risk

- The investment book (PKR 465bln) is dominated by government securities – T bills and PIBs.

Performance

- The bank's asset yield witnessed a drop (end-Sep17: 7%, end-Sep16: 7.9%) due to prevailing interest rate environment and sizeable reduction of high yielding PIBs in the overall earning assets.
- Interest income remained steady (end-Sep17 PKR 37.2bln: end-Sep16: PKR 36.2bln).
- The bank's other operating income surged up by PKR 3,267mln mainly due to higher contribution from fee, commission and brokerage and gain on sale of investments.
- Despite an increase in non-mark-up expenses (end-Sep17 PKR 15.1bln: end-Sep16: PKR 13.4bln), the net income increased by 18% (end-Sep17 PKR 6.4bln: end-Sep16: PKR 5.4bln).

Capital

- BAHL has witnessed a decreased CAR in recent times. The current CAR stood at 12.62% at Sep-17 (1HCY17: 12.21%, CY16: 14.2%, CY15: 13.8%). The minimum CAR requirement as prescribed by the SBP is 10.65% as at Dec-16 and 11.28% as at Dec-17.
- There is slight reduction in Tier I capital ratio. The Tier-I was 9.68% in Sep-17; it was 10.6% (CY16 & CY15), 10.9% (CY14), 10.8% (CY13) and 11.2% in CY12.
- Bank's performance in terms of ROE (24%) remains robust.

Term Finance Certificate

- Currently, BAHL has one unlisted TFC-V of PKR 4,000mln. TFC-V was issued in Mar-16 at 6M-KIBOR plus 75bps p.a. payable semi-annually in arrears. The tenor of this instrument is 10 years, callable in Mar-21.
- The TFC-VI is an unlisted, unsecured, subordinated, perpetual and non-cumulative debt instrument. The profit rate would be 6M-KIBOR plus 150bps p.a.
- The bank has issued TFC-VI; this is a Tier –I debt instrument. The principal amount will be up to PKR 7,000mln inclusive of a Green Shoe option of PKR 2,000mln.
- The TFC is unique as it would supplement the bank's Tier I CAR.

Governance and management

- BAHL's ten-member BoD includes four representatives of Habib family while three are independent members.
- Mr. Mansoor Ali Khan, the bank's CEO, has been associated with the bank for over twenty years. He is backed by a team of experienced professionals, most of whom have long association with the bank.

RATING RATIONALE

The rating reflects the bank's sustained performance, exceptional asset quality, satisfactory financial profile and strong liquidity. The bank has solidified its relative positioning in the universe of large sized banks with maintained share in the country's customer deposits. The bank continued with its strategy for outreach expansion - adding significant branches every year. The strength of the bank is reflected in the high proportion of retail deposits in the total, concentration is low and hence risk is reduced. Trade finance is the bank's hallmark, yet the bank is building alternative revenue streams, while exploring opportunities in CPEC related projects. The rating draws comfort from bank's experienced management team, prudent risk management policies and deep rooted relationship with clients - borrowers as well as depositors.

KEY RATING DRIVERS

The rating is dependent on the bank's sustained risk profile. In the wake of heightened competition, profitable growth is a challenge while retaining the relative positioning in the industry. The CET1 ratio of the bank is expected to remain aligned with the existing financial strength of the bank, going forward.

TIER I TFCS

The banking landscape in Pakistan is witnessing, for the first time, issuance of a Tier I debt instrument: The TFC-VI is an unsecured, subordinated, perpetual and non-cumulative instrument. The instrument will be up to PKR 7,000 mln inclusive of a Green Shoe option of PKR 2,000 mln, whereas the profit rate would be 6M KIBOR plus 150 bps. The TFC is unique as it would supplement the bank's Tier I CAR. Tier I TFC is differentiated from Tier II in two key aspects: (i) It is perpetual & (ii) It is non-cumulative. Furthermore, upon reaching a pre-defined trigger point or point of non-viability (PONV), the Tier I TFC may be partially or fully converted into equity/written off as per the discretion/instructions of SBP (vide Annexure 5, BPRD Circular No. 6 of 2013).

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FINANCIAL SUMMARY

BANK AL HABIB LIMITED (BAHL)

BALANCE SHEET	30-Sep-17	31-Dec-16	30-Sep-16	31-Dec-15
Earning Assets				
Advances (Net of Provision)	304,029	263,552	239,166	209,828
Debt Instruments	3,960	6,712	4,577	4,615
Total Finances	307,989	270,263	243,743	214,443
Investments	461,062	398,316	401,903	352,034
Others	8,966	7,461	10,545	10,671
	778,017	676,041	656,191	577,147
Non Earning Assets				
Non-Earning Cash	54,974	46,005	44,606	38,577
Deferred Tax	-	-	-	-
Net Non-Performing Finances	(2,194)	(2,112)	(1,678)	(2,539)
Fixed Assets & Others	32,798	31,461	26,380	26,788
	85,578	75,354	69,307	62,826
TOTAL ASSETS	**863,595**	**751,395**	**725,499**	**639,973**
Interest Bearning Liabilities				
Deposits	671,304	584,172	574,043	516,213
Borrowings	116,807	97,717	84,731	65,587
	788,110	681,888	658,775	581,800
Non Interest Bearing Liabilities	31,164	26,994	26,036	20,316
TOTAL LIABILITIES	**819,275**	**708,882**	**684,811**	**602,117**
EQUITY (including revaluation surplus)	**44,320**	**42,513**	**40,688**	**37,857**
TOTAL LIABILITIES & EQUITY	**863,595**	**751,395**	**725,499**	**639,973**

INCOME STATEMENT	30-Sep-17	31-Dec-16	30-Sep-16	31-Dec-15
Interest / Mark up Earned	37,217	47,804	36,277	50,293
Interest / Mark up Expensed	(18,020)	(23,133)	(17,614)	(25,476)
Net Interest / Markup revenue	19,197	24,672	18,664	24,817
Other Income	6,606	5,052	3,339	4,511
Total Revenue	25,802	29,724	22,003	29,328
Non-Interest / Non-Mark up Expensed	(15,104)	(17,198)	(13,399)	(14,997)
Pre-provision operating profit	10,698	12,526	8,604	14,330
Provisions	(166)	638	782	(1,999)
Pre-tax profit	10,532	13,164	9,386	12,332
Taxes	(4,131)	(5,045)	(3,959)	(4,927)
Net Income	**6,401**	**8,119**	**5,427**	**7,405**

Ratio Analysis	30-Sep-17	31-Dec-16	30-Sep-16	31-Dec-15
Performance				
ROE	23.8%	24.0%	22.3%	25.0%
Cost-to-Total Net Revenue	58.5%	57.9%	60.9%	51.1%
Provision Expense / Pre Provision Profit	1.6%	-5.1%	-9.1%	13.9%
Capital Adequacy				
Equity/Total Assets	4.5%	4.8%	4.6%	5.0%
Capital Adequacy Ratio as per SBP	12.6%	14.2%	15.2%	13.8%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	62.5%	62.3%	65.8%	65.9%
Advances / Deposits	45.0%	44.8%	41.4%	40.2%
CASA deposits / Total Customer Deposits	82.7%	79.8%	77.7%	76.1%
Intermediation Efficiency				
Asset Yield	6.9%	7.7%	7.9%	9.2%
Cost of Funds	3.3%	3.7%	3.8%	4.6%
Spread	3.6%	4.0%	4.1%	4.7%

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STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk**. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.
CCC CC C	**Very high credit risk**. "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

SHORT TERM RATINGS

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Name of Issuer BANK AL-HABIB LIMITED
Sector Banking
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Outlook	Action
30-Dec-17	AA	Stable	Initial
17-Nov-17	AA	Stable	Preliminary

Instrument Details

Instrument	Size of Issue (PKR mln)	Tenor (yrs) & Maturity	Profit Frequency	Rate	Trustee
PPTFC-VI: Unsecured, subordinated	PKR 7,000mln Inclusive of a Green Shoe option of PKR 2,000mln	Perpetual	Semi-annual	6M-KIBOR+150bps	Pak Brunei Investment Co. Limited

Related Criteria and Research

Rating Methodology Bank Rating Methodology
Sector Research Banking Sector - Viewpoint | June - 17

Rating Analysts

Faraan Taimoor
faraan.taimoor@pacra.com
(92-42-35869504)

Jhangeer Hanif
jhangeer.hanif@pacra.com
(92-42-35869504)

Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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