The Pakistan Credit Rating Agency Limited

Rating Report

Bank AL Habib Limited | Tier-I | TFC VI | Dec-17

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Feb-2022	AA+	-	Stable	Upgrade	-
29-Jun-2021	AA	-	Stable	Upgrade	-
29-Jun-2020	AA-	-	Stable	Maintain	-
28-Dec-2019	AA-	-	Stable	Maintain	-
28-Jun-2019	AA-	-	Stable	Maintain	-
31-Dec-2018	AA-	-	Stable	Maintain	-
28-Jun-2018	AA-	-	Stable	Maintain	-
06-Apr-2018	AA-	-	Stable	Harmonize	-
30-Dec-2017	AA	-	Stable	Initial	-
17-Nov-2017	AA	-	-	Preliminary	-

Rating Rationale and Key Rating Drivers

Bank AL Habib Limited ("BAHL" or the "Bank") has been portraying a history of stable and consistent growth for more than a quarter of a century. The Bank's superior standing was witnessed in the global financial crisis almost a decade ago. The trend continued to this day and is reflected in the sound asset quality of the Bank. The rating reflects the Bank's improved performance, exceptional asset quality, satisfactory financial profile and healthy liquidity. The Bank’s customer deposits increased to PKR 1,256bln as at end-Sep'21 (end-Dec'20: PKR 1,083bln, end-Dec'19: PKR 890bln). Exceptional asset quality - lowest infection ratio in industry, maintained for last many years is reflective of Bank's strength. During CY21, the Bank’s net profit increased to PKR 18.7bln (Dec'20: PKR 17.8bln) driven by increase in non-markup income. Trade finance is the Bank's hallmark. The rating draws comfort from the Bank's experienced management team, prudent risk management policies and deep-rooted relationship with clients-borrowers as well as depositors. As at end-Sep21, the Bank reported CAR of 13.9% (end-Dec'20: 15.1%). The bank's entity rating was upgraded to AAA/A1+ in Jun'21.

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 equity base of the Bank and CAR are satisfactory and may continually be enhanced. The Bank is enhancing its footprints in the broad financial spectrum, which is essential to meet customers' needs. Digital transformation is very important. BAHL is also into the acquirer business.

Disclosure

Name of Rated Entity	Bank AL Habib Limited | Tier-I | TFC VI | Dec-17
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Debt Instrument Rating(Jun-21),Methodology | Financial Institution Rating(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Commercial Bank(Jun-21)
Rating Analysts	Muhammad Junaid | muhammad.junaid@pacra.com | +92-42-35869504

Issuer Profile

Profile Bank AL Habib Limited ("BAHL" or the "Issuer"), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1992. The Bank is engaged in the provision of commercial banking services to individuals and institutional clients. The bank has existing branch network of 956 (CY20: 921) branches /sub-branches, including 138 (CY20: 106) Islamic banking branches at end-Dec21.

Ownership Habib family – one of the oldest and most distinguished names in Pakistan's banking sector, and their friends, associates and group companies own majority stake (50.2%) in BAHL. Other major shareholders include State Life Insurance Corporation (6.6%) and National Investment Trust (5.0%).

Governance The overall control of the Bank vests with a ten-member board of directors (BoD). Three of the board members are representatives of the Habib family. Three members are independent directors while one is executive director. In addition, CEO is deemed to be a director. Six board committees assist the board in effective oversight of the Bank's overall operations on relevant matters. EY Ford Rhodes, Chartered Accountants, have expressed an unqualified opinion on the financial statement for the year ended 31 December 2020.

Management BAHL's management team comprises experienced senior banking professionals having significant experience in banking, locally and abroad. The Bank has five internal committees in place. These committees operate under the close supervision of the CEO/Executive Director. BAHL has a robust risk management framework to manage various risks to which the Bank is exposed.

Business Risk The indicators of the banking sector reflected signs of recovery and resilience. Deposits of the banking sector grew by 12% to PKR 20,441bln (CY20: PKR 18,519bln) as compared to 16.1% growth in CY20. The surge in deposits provided the necessary funding support to finance the robust rise in investments (1HCY21: PKR 14,162bln, CY20: PKR 11,935bln) which remained tilted towards government instruments. On the advances front, during 1HCY21, after recording slight uptick advances stood at PKR 8,808bln (CY20: PKR 8,292bln) where mild contraction was observed in CY20 owing to slackness amid COVID-19 pandemic outbreak. Minute uptick of 0.5% was observed in the sector's infection. The policy measures rolled out by the SBP (during CY20) enabled the sector to enhance profitability, improve resilience and limit the credit risk. With the completion of deferment period allowed, the aftermath is yet to be comprehended by the industry. BAHL, a large sized bank, holds a good position in the industry; 6.4% (end-Dec19: 6.1%) market share in term of deposits. During 9MCY21, deposits have grown to stand at PKR 1,272bln and gross advances have grown to stand at PKR 672bln. The Bank's gross Advances to Deposits Ratio (ADR) improved to 51.8% during 9MCY21 (CY20: 46.4%). Going forward, BAHL envisages fortifying its market positioning; meanwhile, the focus is on enhancing its profitability via mobilization of low-cost deposits, expansion in branch network and achieving greater operational efficiency by keeping expenses under control and improving IT infrastructure. At the same time, selective diversification and monitoring of credit exposures would continue to remain an area of focus.

Financial Risk During 9MCY21, the investment portfolio of the bank has grown by 22.2% to stand at PKR 928bln, (end-Dec20: PKR 759.5bln) due to higher investment in government securities. The bank's customer deposits posted a growth of 22% to stand at PKR 1,253bln (end-Dec20: PKR 1,083bln). The bank's liquidity, in terms of Liquid Assets-to-Deposits and Borrowings ratio decreased and stood at 59% (CY20: 68.3%). Herein, the bank's leverage ratio (4.7%) safely complies with SBP's requirement i.e. 3%. At end-Sept21, the bank reported CAR of 13.9% (CY20: 15.1%), comprising of Tier I capital (10.5%), remaining compliant with the minimum requirement by SBP. The equity base of the bank increased to PKR 87.8bln (CY20: PKR 79.9bln). During CY21, the markup income declined by ~7% to PKR 116.7bln from PKR 125.2bln in CY20. The impact was minimized on the net markup income as it recorded at PKR 55.6bln (CY20: PKR 57.6bln), BAHL's NIMR decreased by 3.4% on YOY basis to stand at PKR 55.6bln (CY20: PKR 57.6bln) due to decreased mark-up earned amounting to PKR 1,167bln (CY20: PKR 1,252bln) down by 6.7% YOY and markup expensed declined by 9.6% clocking in at PKR 61bln (CY20: PKR 67.6bln). During CY21, non-markup income recorded huge growth of 37% YOY (CY21: PKR 14bln; CY20: PKR 10.2bln). Non-markup expense also grew by 13.4% YOY standing at PKR 39.4bln (CY20: PKR 34.7bln). Net profit increased by 5% YOY and amounted to PKR 18.7bln (CY20: PKR 17.8bln) owing to increase in non-markup income.

Instrument Rating Considerations

About The Instrument Bank AL Habib Limited issued an unsecured, unlisted, subordinated, rated, and perpetual term finance certificate-VI ("TFC" or the "Issue" or "Instruments") The issue amounts to PKR 7bln (inclusive of a Green Shoe option of PKR 2bln). The profit is being paid at the rate of 6MK+150bps semiannually in arrears on the outstanding principal amount. The amount raised through this Issue contributed toward AL Habib's Additional Tier 1 Capital for capital adequacy requirement as per guidelines set by SBP. The funds so raised are also utilized in AL Habib's normal business operations. Profit payments are being made semiannually on arrears on the outstanding principal amount. Such payments are only from the current year's earnings and are non-cumulative. Bank AL Habib Limited may call the TFCs (either partially or in full), with prior approval of SBP, on any profit payment date on or after five years from the date of issue.

Relative Seniority/Subordination Of Instrument The Instrument is unsecured and subordinated as to payment of principal and profit to all other claims except common shares and is parri passu to other Additional Tier 1 instruments. In addition to the Lock In Clause, the Instrument will be subject to 1) Loss absorption upon the occurrence of a Pre-Specified Trigger ("PST") i.e., issuer's CET1 ratio falls to/below 6.625% of Risk-Weighted Assets; and 2) Loss absorption and/or any other requirements of SBP upon the occurrence of a Point of Non-Viability ("PONV"). Upon reaching the pre-defined trigger point or point of non-viability (PONV), the TFC may be partially or fully converted into equity/written off as per the discretion/instructions of SBP.

Credit Enhancement The Instrument is unsecured.

PKR mln

Bank Al Habib	Sep-21	Dec-20	Dec-19	Dec-18
Listed Public Limited	9M	12M	12M	12M

A BALANCE SHEET

	Sep-21	Dec-20	Dec-19	Dec-18
1 Total Finances - net	671,826	520,886	496,494	485,705
2 Investments	928,175	759,571	580,649	409,610
3 Other Earning Assets	11,987	22,857	19,442	14,243
4 Non-Earning Assets	251,794	224,039	204,430	141,176
5 Non-Performing Finances-net	(6,031)	(5,261)	(2,333)	(2,495)
Total Assets	1,857,751	1,522,091	1,298,682	1,048,239
6 Deposits	1,272,576	1,099,686	903,740	796,901
7 Borrowings	368,961	226,589	243,738	134,034
8 Other Liabilities (Non-Interest Bearing)	128,429	115,960	89,701	67,752
Total Liabilities	1,769,966	1,442,235	1,237,179	998,687
Equity	87,784	79,856	61,503	49,551

B INCOME STATEMENT

	Sep-21	Dec-20	Dec-19	Dec-18
1 Mark Up Earned	85,653	125,273	105,602	60,733
2 Mark Up Expensed	(44,231)	(67,653)	(64,416)	(29,839)
3 Non Mark Up Income	9,638	10,273	9,481	7,268
Total Income	51,060	67,893	50,667	38,161
4 Non-Mark Up Expenses	(28,886)	(34,768)	(28,261)	(23,651)
5 Provisions/Write offs/Reversals	133	(4,543)	(3,395)	(247)
Pre-Tax Profit	22,307	28,581	19,011	14,264
6 Taxes	(8,378)	(10,770)	(7,842)	(5,846)
Profit After Tax	13,930	17,812	11,169	8,418

C RATIO ANALYSIS

	Sep-21	Dec-20	Dec-19	Dec-18
1 Performance				
Net Mark Up Income / Avg. Assets	3.3%	4.1%	3.5%	3.1%
Non-Mark Up Expenses / Total Income	56.6%	51.2%	55.8%	62.0%
ROE	22.2%	25.2%	20.1%	17.6%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	4.7%	5.2%	4.7%	4.7%
Capital Adequacy Ratio	13.9%	15.1%	14.4%	13.4%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	59.0%	63.8%	55.3%	49.7%
(Advances + Net Non-Performing Advances) / Deposits	51.8%	46.4%	54.1%	60.0%
CA Deposits / Deposits	51.4%	50.2%	48.7%	50.3%
SA Deposits / Deposits	29.8%	29.8%	29.4%	29.9%
4 Credit Risk				
Non-Performing Advances / Gross Advances	1.0%	1.4%	1.5%	1.1%
Non-Performing Finances-net / Equity	-6.9%	-6.6%	-3.8%	-5.0%

Credit Rating

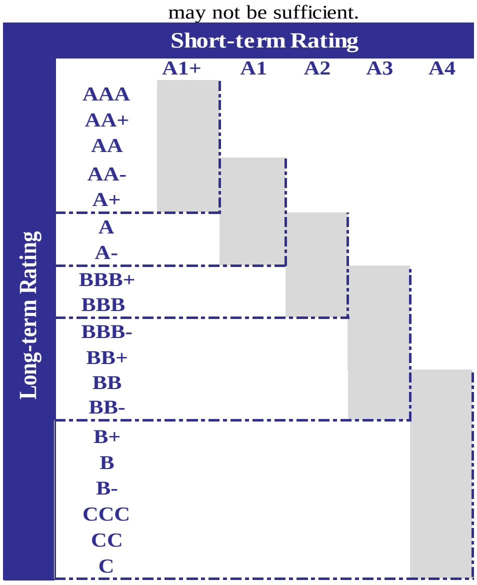
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 and in 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.** Substantial 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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



***The correlation shown is indicative and, in certain cases, may not hold.**

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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

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, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information

Regulatory and supplementary Disclosure

Nature of Instrument	Size of issue	Date of Issue	Years	Security	Quantum of security	Nature of Assets	Book value of Assets (PKR mln)	Trustee
PPTFC-VI	7bln	31-Dec-17	Perpetual	Unsecured and subordinated as to payment of principal and profit to all other indebtedness of the bank, including deposits and will not be redeemable before maturity without prior approval of SBP.	N/A	N/A	N/A	Pak Brunei Investment Co. Limited

Bank AL Habib Limited | Tier-I TFC VI | Dec -17 | Redemption Schedule

Due Date Principle	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate (6MK + 1.5%)	6M Kibor	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		

Redemption Schedule not applicable since its a perpetual TFC whereby there is no fixed or final redemption date. Profit (if declared) will be payable semi-annually in arrears, on a non-cumulative basis, on the outstanding TFC amount. The first such profit payment will fall due six months from the Issue Date and subsequently every six months thereafter subject to complying with regulatory requirements. The instrument carries a call option which may be exercised after Dec-22 (5 years), subject to approval of the SBP.