The Pakistan Credit Rating Agency Limited

Rating Report

Bank AL Habib Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2022	AAA	A1+	Stable	Maintain	-
26-Jun-2021	AAA	A1+	Stable	Upgrade	-
29-Jun-2020	AA+	A1+	Stable	Maintain	-
28-Dec-2019	AA+	A1+	Stable	Maintain	-
28-Jun-2019	AA+	A1+	Stable	Maintain	-
31-Dec-2018	AA+	A1+	Stable	Maintain	-
28-Jun-2018	AA+	A1+	Stable	Maintain	-
30-Dec-2017	AA+	A1+	Stable	Maintain	-
22-Jun-2017	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings of the Bank reflect its enduring and sustained emphasis on reinvigorating its relative positioning in the peer universe. While the competitive landscape has been increasingly intensified, the Bank, under its able leadership, is taking measurable steps to remain competitive, indeed, improve its positioning. Bank AL Habib 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 Bank continued with its strategy for outreach expansion - adding significant branches every quarter to enhance geographical concentration. The rating reflects the Bank's improved performance, exceptional asset quality, strong financial profile and healthy liquidity. The Bank's customer deposits increased to PKR 1,344bln as at end-Mar22 (end-Dec21: PKR 1,275bln, end-Dec20: PKR 1,083bln), subsequently, system share of the Bank enhanced (CY21: 6.5%; CY20: 6.4%). Advances base of the Bank recorded sizable increase to stand at PKR 747bln (CY21: PKR 734bln). CAR recorded dilution to 13.5% (end-Dec20: 15.1%). Prudent management of CAR remains of vital importance, going forward. 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. During 1QFY22, the trend continued as Profit After Tax grew by ~8% YoY to stand at PKR 4.9bln. Trade finance is the Bank's hallmark. The rating draws comfort from the Bank's experienced management team, prudent risk management policies, deep-rooted relationship with clients - borrowers as well as depositors. Pakistan's economy has gone through several varied phases in last two years due to the COVID19 pandemic. Banking sector continued to flourish with high profitability. Going forward, the macro-economic environment is beset with myriad challenges due to heightened interest rate, tightening of demand, rupee depreciation and higher inflation. This has repercussions for all segments of the economy.

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
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Financial Institution Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Commercial Bank(Jun-22)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Bank AL Habib Limited (BAHL), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1992. The Bank is quoted on Pakistan stock exchange under the category of commercial banks.

Background The Bank's registered office is located in the city of Multan in Punjab and its principal office is located in Karachi.

Operations The Bank's principal activities are to provide commercial banking services to individuals and institutional clients. The Bank has existing branch network of 986 as at end-Mar22 (CY21: 956) branches /sub-branches, including 142 (CY21: 138) Islamic banking branches at end-Mar22.

Ownership

Ownership Structure Habib Family and friends, associates and group companies own majority stake (50.6%) in BAHL. Other major shareholders include State Life Insurance Corporation (6.61%) and National Investment Trust (5.14%).

Stability Ownership structure of the Bank is seen as stable as majority stake rests with the sponsors.

Business Acumen Sponsors are member of the Habib Family - one of the oldest and most distinguished names in Pakistan's banking sector. Their significant experience and business acumen in commercial banking has been of value, as their background has allowed them to proactively deal with the changing dynamics of the industry and demonstrate consistent performance.

Financial Strength BAHL is the flagship business of sponsors, willingness to support the Bank in case the need arises is considered high; also supplemented by access to the capital markets.

Governance

Board Structure BAHL's ten-member BoD includes three representatives of Habib Family. Three members are independent directors while one is executive director. In addition, the CEO is deemed to be a director.

Members' Profile The board members have extensive experience in the banking and commercial industries of Pakistan and are actively involved in providing strategic input and guidance to the management. CEO is a seasoned professional banker, who has been with the Bank for over 25 years.

Board Effectiveness There are six board committees which assist the board in effective oversight of the Bank's overall operations on relevant matters. The BoD provides overall guidelines on managing risks associated with the Bank's operations and strategic direction.

Financial Transparency The auditors of the Bank, EY Ford Rhodes, Chartered Accountants, have expressed an unqualified opinion on the Bank's financial statements for the year ended December 31, 2021.

Management

Organizational Structure The Bank has well-developed management tiers and succession plans for key management positions and a horizontal organizational structure, wherein the Bank's operations are grouped under various Division Heads.

Management Team The strength of the Bank comes from the core team of experienced senior banking professionals, having significant experience in banking, locally and abroad.

Effectiveness The Bank has five internal committees in place at the management level to oversee its day-to-day operational matters and take decisions to implement the strategy outlined by the board. These committees operate under the close supervision of the CEO/Executive Director.

MIS The Bank is using in-house developed software named 'AL Habib Banking System -AHBS' as its core banking software that allows real-time on-line connectivity with other subsystems operating in the Bank. The Bank also has a separate Information Security Department.

Risk Management Framework BAHL has a robust risk management framework to manage various risks to which the Bank is exposed. The overall responsibility of risk management lies with the BoD, through various committees of the board. The Bank has in place a separate Risk Management Division (RMD).

Business Risk

Industry Dynamics Pakistan's economy has gone through several varied phases in last two years. It was deeply impacted by the magnitude of the COVID19 pandemic. The economic activity revived afterwards and Pakistan posted a GDP growth rate of ~4.0% in FY21 after a contraction in economy of -0.4% in FY20 (GDP growth figures were revised after base year was changed from FY05-06 to FY15-16). Banking sector continues to flourish with high profitability. Banking sector weightage is approximately ~25% of the KSE 100 index. Total banking assets posted growth of ~19% YoY whilst investments surged by 21% YoY to PKR ~14.4trln (end-Dec20: PKR ~11.9trln). Gross Advances of the sector recorded growth (23%) to stand at PKR ~10.9trln (end-Dec20: PKR ~8.8trln). Non-performing loans witnessed slight uptick of 4% to PKR ~860bln. Capital Adequacy Ratio stood at 16.7% (regulatory requirement of 11.5%). During CY21, banking sector deposits enhanced to PKR ~21.6trln (grew by ~17%). Hence, ADR rationalized to 47% (end-Dec20: ~45%). Net profitability of the sector recorded at PKR ~267bln (CY20: PKR ~244bln); up 9% YoY. However, growth of equity base of the sector recorded meagre uptick of 0.8% YoY attributable to handsome dividend payout.

Relative Position BAHL, a large sized bank, holds a good position in the industry; 6.5% (end-Dec20: 6.4%) market share in term of customer deposits. Customer deposit base stands at PKR 1,275bln as at end-Dec21 (end-Dec20: PKR 1,083bln).

Revenues During CY21, BAHL's NIMR witnessed a marginal decrease of 3.5% on YoY basis to stand at PKR 55.6bln (CY20: PKR 57.6bln). The Bank's asset yield declined to 8.1% (end-Dec20: 10.5%), whereas cost of funds decreased to 4.1% (CY20: 5.5%). Consequently, Bank's spread declined (CY21: 3.9%; CY20: 5.0%). During 1QCY22, NIMR increased by 23% YoY (1QCY22: PKR 16bln; 1QCY21: PKR 13.1bln). Spread inched up to 4.2% (1QCY21: 4%).

Performance During CY21, non-markup income recorded growth of 37% YoY (CY21: PKR 14bln; CY20: PKR 10.3bln) mainly attributable to sizable improvement in fee & commission income and stable foreign exchange income. Fee commission income increased to PKR 9.3bln (CY20: PKR 6.6bln) where as foreign exchange income recorded uptick to PKR 2.9bln (CY20: PKR 2.1bln). Non-markup expense also grew by 13.5% YoY standing at PKR 39.4bln (CY20: PKR 34.7bln) mainly due to 10.5% increase in total compensation expense (CY21: PKR 17bln; CY20: PKR 15.4bln). Hence, net profitability of the Bank recorded uptick to close at PKR 18.7bln (CY20: PKR 17.8bln). During 1QCY22, Profit After Tax grew by 7.87% to stand at PKR 4.9bln (1QCY21: PKR 4.6bln) with respect to the corresponding period last year mainly due to robust increase in mark-up income (1QCY22: PKR 34.1bln; 1QCY21: PKR 25.9bln).

Sustainability 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

Credit Risk At end-Dec21, gross advances have grown by 43% to stand at PKR 747bln. Subsequently, ADR increased and was reported at 56% as at end-Dec21 (end-Dec20: 46.4%). Infection ratio stands at 1% (end-Dec20: 1.4%), representing high asset quality managed by the Bank over the years. At end-Mar22, infection ratio remained stagnant 1%.

Market Risk At end-Dec21, the investment portfolio of the Bank has grown by 7.9% to stand at PKR 826bln, including debt instruments (end-Dec20: PKR 765bln). Government securities constitutes 98.2% of total investments (CY20: 98.9%) excluding debt instruments.

Liquidity And Funding At end-Dec21, the Bank's customer deposits posted a growth of 17.7% to stand at PKR 1,275bln (end-Dec20: PKR 1083bln). CA and SA proportion stood at 51.5% (end-Dec20: 50.2%) and 29.8% (end-Dec20: 29.8%). At end-Mar22, customer deposits increased to PKR 1,344bln with CA and SA proportion stood at 52.5% and 28.7% respectively.

Capitalization At end-Dec21, BAHL's paid-up capital stands at PKR 11,114mln. However, the Bank's equity base stands at PKR 90bln (end-Dec20: PKR 79.9bln). Bank reported CAR of 13.5% (CY20: 15.1%). At end-Mar22, CAR of the Bank to stand at 13.0%.

PKR mln

Bank AL Habib Listed Public Limited	Mar-22 3M	Dec-21 12M	Dec-20 12M	Dec-19 12M
A BALANCE SHEET				
1 Total Finances - net	780,209	769,225	542,112	496,494
2 Investments	726,119	796,517	738,344	580,649
3 Other Earning Assets	50,897	30,696	22,857	19,442
4 Non-Earning Assets	272,484	258,557	224,039	204,430
5 Non-Performing Finances-net	(5,572)	(5,343)	(5,261)	(2,333)
Total Assets	1,824,137	1,849,652	1,522,091	1,298,682
6 Deposits	1,367,509	1,309,823	1,099,686	903,740
7 Borrowings	233,634	318,208	226,589	243,738
8 Other Liabilities (Non-Interest Bearing)	137,321	131,606	115,960	89,701
Total Liabilities	1,738,465	1,759,637	1,442,235	1,237,179
Equity	85,673	90,015	79,856	61,503
B INCOME STATEMENT				
1 Mark Up Earned	34,196	116,752	125,273	105,602
2 Mark Up Expensed	(18,172)	(61,143)	(67,653)	(64,416)
3 Non Mark Up Income	4,159	14,027	10,273	9,481
Total Income	20,183	69,636	67,893	50,667
4 Non-Mark Up Expenses	(11,845)	(39,410)	(34,768)	(28,261)
5 Provisions/Write offs/Reversals	(154)	47	(4,543)	(3,395)
Pre-Tax Profit	8,185	30,273	28,581	19,011
6 Taxes	(3,222)	(11,570)	(10,770)	(7,842)
Profit After Tax	4,963	18,702	17,812	11,169
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.5%	3.3%	4.1%	3.5%
Non-Mark Up Expenses / Total Income	58.7%	56.6%	51.2%	55.8%
ROE	22.6%	22.0%	25.2%	20.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	4.7%	4.9%	5.2%	4.7%
Capital Adequacy Ratio	13.0%	13.5%	15.1%	14.4%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	53.2%	52.6%	62.1%	55.3%
(Advances + Net Non-Performing Advances) / Deposits	54.6%	56.0%	46.4%	54.1%
CA Deposits / Deposits	52.5%	51.5%	50.2%	48.7%
SA Deposits / Deposits	28.7%	29.8%	29.8%	29.4%
4 Credit Risk				
Non-Performing Advances / Gross Advances	1.0%	1.0%	1.4%	1.5%
Non-Performing Finances-net / Equity	-6.5%	-5.9%	-6.6%	-3.8%

Credit Rating

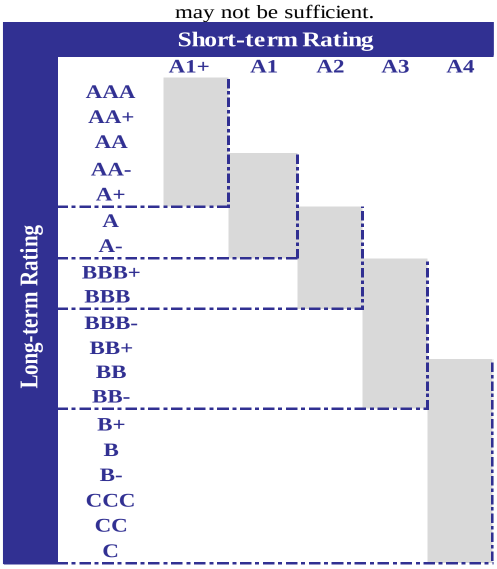
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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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

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(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
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(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 | Clause 11-(A)(p).
(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)

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(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)
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(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)
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