



The Pakistan Credit Rating Agency Limited

Rating Report

Bank AL Habib Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	AAA	A1+	Stable	Maintain	-
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	-

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. At end-Mar23, the Bank's customer deposits increased to PKR 1,650bln (end-Dec22: PKR 1,514bln), subsequently, the deposit share of the Bank enhanced (1QCY23: 7.2%; CY22: 6.9%). The gross advances of the Bank increased to stand at PKR 899bln (end-Dec22: PKR 831bln). Exceptional asset quality – one of the lowest infection ratios in the industry, maintained for the last many years is reflective of Bank's strength. During CY22, the Bank's net profit reported at PKR 16.6bln (CY21: PKR 18.7bln) caused by an increase in the provisioning expenses mainly against sovereign bonds clocking in at PKR 12.9bln (CY21: PKR 47mln). Trade finance is the hallmark of Bank ensuring continuous revenue stream. The rating draws comfort from the Bank's experienced management team, prudent risk management policies, and deep-rooted relationship with customers-borrowers as well as depositors. At end-Dec22, the CAR of the Bank inclined to 14.7% (end-Dec21: 13.5%) The Bank expects further enhancement in CAR. During 1QCY23, the net profit of the bank inclined to PKR 10.5bln (1QCY22: PKR 5.0bln) owing to enhanced NIMR clocking in at PKR 24.6bln (1QCY22: PKR 16bln). However, at end-Mar23, the equity base is affected by a deficit in the investment book, mainly comprising local and foreign government debt securities. The country's economy has gone through several varied phases in the last few years. Looking ahead, the macroeconomic landscape is fraught with numerous challenges, including elevated interest rates, demand tightening, sizable rupee depreciation, and heightened inflation, all of which reverberate across all sectors 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 is 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. BAHIL 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-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Commercial Bank(Jun-23)
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 the 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 an existing branch network of 1,081 as of the end-Mar23 (CY22: 1,079) branches /sub-branches, including 178 (CY22: 178) Islamic banking branches at the end-Mar23.

Ownership

Ownership Structure Habib's Family and friends, associates, and group companies own a majority stake (50.70%) in BAHL. Other major shareholders include State Life Insurance Corporation (6.61%) and National Investment Trust (5.12%).

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

Business Acumen Sponsors are members 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 have 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. Hence, 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 27 years.

Board Effectiveness There are six board committees that assist the board in the 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 are EY Ford Rhodes, Chartered Accountants, classified in category 'A' by SBP and having a QCR rating. They have expressed an unqualified opinion on the Bank's financial statements for the year ended December 31, 2022.

Management

Organizational Structure The Bank has well-developed management tiers and succession plans for key management positions and a horizontal organizational structure, wherein the company'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, who have sizable experience in commercial 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.

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 The country's economy has gone through several varied phases in the last few years. Pakistan posted a GDP growth rate of 1.69% in 9MFY23 and 4.71% in FY22 (GDP growth figures were revised after the base year was changed from FY05-06 to FY15-16). The banking sector continues to flourish with high profitability. Total banking assets posted growth of 18.5% YoY whilst investments surged by 25% YoY to PKR 18.0trln (end-Dec21: PKR 14.4trln). Gross Advances of the sector recorded growth (16%) to stand at PKR 12.6trln (end-Dec21: PKR 10.9trln). Non-performing loans witnessed an increase to PKR 924bln. The Capital Adequacy Ratio remained intact at 17% (regulatory requirement of 11.5%). However, declined in Mar-23 to 15%.

Relative Position BAHL, a large-sized Bank, holds a good position in the industry; 6.9% (end-Dec21: 6.5%) market share in terms of customer deposits. The customer deposit base stands at PKR 1,514bln as of end-Dec22 (end-Dec21: PKR 1,275bln).

Revenues During CY22, BAHL's NIMR witnessed an increase of 39% on a YoY basis to stand at PKR 77.3bln (CY21: PKR 55.5bln) primarily attributable to increased mark-up earned amounting to PKR 200.9bln (CY21: PKR 116.7bln) up by 72% YoY. Bank's net-markup income to total income inched down to 78.5% (CY21: 79.9%). The Bank's asset yield increased to 11.2% (end-Dec21: 8.1%). Subsequently, Bank's spread marginally improved YoY (CY22: 4.4%; CY21: 3.9%). During 1QCY23, NIMR increased by 53.7% YoY to stand at PKR 24.6bln (1QCY22: PKR 16bln). Spread inched up to 5.1% (1QCY22: 4.4%).

Performance During CY22, non-markup income recorded a growth of 51% YoY (CY22: PKR 21.2bln; CY21: PKR 14bln) mainly attributable to a sizable improvement in fee & commission income and foreign exchange income. The fee & commission income increased to PKR 11.6bln (CY21: PKR 9.3bln), whereas foreign exchange income enhanced to PKR 7.2bln (CY21: PKR 2.9bln). The non-markup expense also grew by 34% YoY standing at PKR 52.8bln (CY21: PKR 39.3bln). The net profitability of the Bank declined YoY to PKR 16.6bln (CY21: PKR 18.7bln). During 1QCY23, Profit After Tax grew by 114% to stand at PKR 10.5bln (1QCY22: PKR 5.0bln).

Sustainability BAHL envisages fortifying its market positioning; meanwhile, the focus is on enhancing its profitability via the mobilization of low-cost deposits, expansion in the 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-Dec22, The net advances have grown by 11% to stand at PKR 813.5bln (end-Dec21: PKR 734bln). However, ADR decreased and was reported at 51.9% (end-Dec21: 56%). The infection ratio is healthy as compared to other banks in the peer universe and stands at 1.7% (end-Dec21: 1%), representing high asset quality managed by the Bank over the years. At end-Mar23 the net advances have grown to PKR 879bln. Whereas, the infection ratio remains unchanged 1.7%.

Market Risk At end-Dec22, the investment portfolio of the Bank has grown by 40% to stand at PKR 1,158bln including debt instruments (end-Dec21: PKR 826.6bln). Government securities constitute 98.9% of total investments (end-Dec21: 98.2%). At end-Mar23, the investment portfolio of the Bank recorded at PKR 1,135bln including debt instruments.

Liquidity And Funding At end-Dec22, the Bank's customer deposits posted a growth of 19% to stand at PKR 1,514bln (end-Dec21: PKR 1,275bln). CA and SA proportions stood at 52.2% (end-Dec21: 51.5%) and 30.3% (end-Dec21: 29.8%) respectively. At end-Mar23, customer deposits increased to PKR 1,650bln with CA and SA proportions standing at 53.4% and 30.3% respectively.

Capitalization At end-Dec22, BAHL's paid-up capital stands at PKR 11,114mln. However, the Bank's equity base stands at PKR 95bln (end-Dec21: PKR 90bln). The Bank reported CAR of 14.7% (end-Dec21: 13.5%) comprising of Tier, I capital (11.4%), remaining compliant with the minimum requirement by SBP. At end-Mar23, the CAR of Bank recorded at 12.5%.



PKR mln

Bank AL Habib Limited
Listed Public Limited

Mar-23	Dec-22	Dec-21	Dec-20
3M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	913,090	847,278	769,225	542,112
2 Investments	1,104,902	1,127,866	796,517	738,344
3 Other Earning Assets	132,601	29,017	30,696	22,857
4 Non-Earning Assets	324,608	270,996	258,557	224,039
5 Non-Performing Finances-net	(3,756)	(3,088)	(5,343)	(5,261)
Total Assets	2,471,445	2,272,068	1,849,652	1,522,091
6 Deposits	1,726,897	1,568,138	1,309,823	1,099,686
7 Borrowings	510,787	448,981	318,208	226,589
8 Other Liabilities (Non-Interest Bearing)	144,225	159,707	131,606	115,960
Total Liabilities	2,381,909	2,176,826	1,759,637	1,442,235
Equity	89,536	95,242	90,015	79,856

B INCOME STATEMENT

1 Mark Up Earned	74,805	200,921	116,752	125,273
2 Mark Up Expensed	(50,181)	(123,602)	(61,272)	(67,653)
3 Non Mark Up Income	6,302	21,196	14,027	10,273
Total Income	30,927	98,515	69,507	67,893
4 Non-Mark Up Expenses	(15,322)	(52,761)	(39,280)	(34,768)
5 Provisions/Write offs/Reversals	952	(12,871)	47	(4,543)
Pre-Tax Profit	16,557	32,884	30,274	28,581
6 Taxes	(6,018)	(16,314)	(11,570)	(10,770)
Profit After Tax	10,539	16,570	18,703	17,812

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	4.2%	3.8%	3.3%	4.1%
Non-Mark Up Expenses / Total Income	49.5%	53.6%	56.5%	51.2%
ROE	46.3%	17.9%	22.0%	25.2%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	3.6%	4.2%	4.9%	5.2%
Capital Adequacy Ratio	12.5%	14.7%	13.5%	15.1%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	49.3%	56.0%	52.6%	62.1%
(Advances + Net Non-Performing Advances) / Deposits	50.9%	51.9%	56.0%	46.4%
CA Deposits / Deposits	53.4%	52.2%	51.5%	50.2%
SA Deposits / Deposits	30.3%	30.3%	29.8%	29.8%

4 Credit Risk

Non-Performing Advances / Gross Advances	1.8%	1.8%	1.0%	1.4%
Non-Performing Finances-net / Equity	-4.2%	-3.2%	-5.9%	-6.6%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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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

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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

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

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