



## The Pakistan Credit Rating Agency Limited

### Rating Report

## Bank AL Habib Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Jun-2024	AAA	A1+	Stable	Maintain	-
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	-

#### 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 is becoming increasingly intensified, the Bank, under its able leadership, is actively taking measurable steps to remain competitive and, indeed, improve its positioning. Bank AL Habib has been portraying a history of stable and steady growth for more than a quarter of a century. 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, good asset quality, strengthened financial profile, and healthy liquidity. At end-Dec23, the Bank's deposit base posted a growth of 23% to stand at PKR 1,934bln (end-Dec22: PKR 1,568bln). The strength of the Bank is reflected in the high proportion of retail deposits in the total. Hence, concentration is low along with reduced risk. The gross advances of the Bank increased to stand at PKR 896bln (end-Dec22: PKR 831bln). Subsequently, the advance share of the bank increased to 7.2% (end-Dec22: 6.8%) making it one of the leading players in the industry. The infection ratio recorded a marginal uptick, still one of the lowest in the industry is a demonstration of the Bank's strength. During CY23, the Profit After Tax of the Bank surged by 106% to stand at PKR 35bln (CY22: PKR 17bln) attributable to enhanced NIMR clocking in at PKR 124bln (CY22: PKR 77bln). The CAR of the Bank reflected an improvement to 15.8% (end-Dec22: 14.7%) owing to healthy profitability. The strengthening of CAR will supplement the growth cushion of the Bank. Trade finance is the hallmark of the Bank ensuring a continuous revenue stream. The rating draws comfort from the business acumen of the sponsor, experienced management team, prudent risk management policies, and deep-rooted relationship with customers-borrowers as well as depositors. CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

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

#### Disclosure

<b>Name of Rated Entity</b>	Bank AL Habib Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Financial Institution Rating(Oct-23),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Commercial Banks(Jun-24)
<b>Rating Analysts</b>	Muhammad Usman Ameer   usman.ameer@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 1,113 as of the end-Dec23 (end-Dec22: 1,079) branches /sub-branches, including 201 (end-Dec22: 178) Islamic banking branches. BAHL has been operating overseas branches in the Kingdom of Bahrain and Malaysia (Labuan) and one representative office each in Dubai, Istanbul, Beijing, and Nairobi.

## Ownership

**Ownership Structure** Habib's Family and friends, associates, and group companies own a majority stake (50.7%) in BAHL. Other major shareholders include State Life Insurance Corporation (6.6%) and National Investment Trust (5%).

**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. During April 2024, Mr. Javed Iqbal resigned from the position of independent 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 28 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, 2023.

## 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 online 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** CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan's banking sector's total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 18.5% (end-Dec22: 15.5%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

**Relative Position** At end-Dec23, BAHL, a large-sized Bank, holds a good position in the industry; 6.8% (end-Dec22: 6.9%) market share in terms of total deposits. The Bank's deposit base stands at PKR 1,934bln (end-Dec22: PKR 1,568bln).

**Revenues** During CY23, BAHL's NIMR witnessed an increase of 61% on a YoY basis to stand at PKR 124.1bln (CY22: PKR 77.3bln). primarily attributable to increased markup earned amounting to PKR 373.9bln (CY22: PKR 200.9bln) up by 86% YoY. The Bank's asset yield increased to 17.1% (CY22: 11.2%), whereas the cost of funds increased to 11.2% (CY22: 6.8%). Subsequently, the Bank's spread improved YoY (CY23: 5.8%; CY22: 4.4%).

**Performance** During CY23, non-markup income recorded a growth of 10% YoY to PKR 23bln (CY22: PKR 21bln) with a major contribution from fee & commission income clocking in at PKR 13.9bln (CY22: PKR 11.6bln) followed by forex income clocking in at PKR 6.8bln (CY22: PKR 7.2bln). The non-markup expense also grew by 37% YoY standing at PKR 72bln (CY22: PKR 52.7bln). The provisioning expenses declined to PKR 4.2bln (CY22: PKR 12.9bln). Subsequently, the net profitability of the Bank surged by 106% to stand at PKR 35bln (CY22: PKR 17bln).

**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-Dec23, the Bank's net advances grew by 7% to stand at PKR 869bln (end-Dec22: PKR 814bln). However, ADR was decreased and reported at 45% (end-Dec22: 51.9%). The infection ratio of the bank was reported at 2.8% (end-Dec22: 1.8%).

**Market Risk** At end-Dec23, the investment portfolio of the Bank has grown by 30% to stand at PKR 1,504bln including debt instruments (end-Dec22: PKR 1,159bln). Government securities constitute 99.1% of total investments (end-Dec22: 98.9%).

**Liquidity And Funding** At end-Dec23, the Bank's deposit base posted a growth of 23% to stand at PKR 1,934bln (end-Dec22: PKR 1,568bln). CA and SA proportions were reported at 48.6% (end-Dec22: 52.2%) and 36.5% (end-Dec22: 30.3%) respectively. The bank's liquidity, in terms of Liquid Assets-to-Deposits and Borrowings ratio, inclined to 62.5% (end-Dec22: 57.2%).

**Capitalization** At end-Dec23, BAHL's paid-up capital stood at PKR 11,114mln. However, the Bank's equity base increased to PKR 126.6bln (end-Dec22: PKR 95.2bln) attributable to improved profitability. Subsequently, the CAR of the Bank inclined to 15.8% (end-Dec22: 14.7%) comprising of Tier, I CAR (12.011%), remaining compliant with the minimum requirement by SBP.



PKR mln

Bank AL Habib Limited  
Listed Public Limited

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

## A BALANCE SHEET

1 Total Finances - net	880,025	826,178	769,225	542,112
2 Investments	1,494,719	1,148,966	796,517	738,344
3 Other Earning Assets	13,901	29,053	30,696	22,857
4 Non-Earning Assets	353,765	270,959	258,557	224,039
5 Non-Performing Finances-net	(1,389)	(3,088)	(5,343)	(5,261)
<b>Total Assets</b>	<b>2,741,020</b>	<b>2,272,068</b>	<b>1,849,652</b>	<b>1,522,091</b>
6 Deposits	1,934,037	1,568,138	1,309,823	1,099,686
7 Borrowings	507,423	448,981	318,208	226,589
8 Other Liabilities (Non-Interest Bearing)	172,954	159,707	131,606	115,960
<b>Total Liabilities</b>	<b>2,614,413</b>	<b>2,176,826</b>	<b>1,759,637</b>	<b>1,442,235</b>
<b>Equity</b>	<b>126,607</b>	<b>95,242</b>	<b>90,015</b>	<b>79,856</b>

## B INCOME STATEMENT

1 Mark Up Earned	373,902	200,921	116,752	125,273
2 Mark Up Expensed	(249,755)	(123,602)	(61,273)	(67,653)
3 Non Mark Up Income	23,227	21,196	14,027	10,231
<b>Total Income</b>	<b>147,375</b>	<b>98,515</b>	<b>69,506</b>	<b>67,851</b>
4 Non-Mark Up Expenses	(72,047)	(52,761)	(39,280)	(34,726)
5 Provisions/Write offs/Reversals	(4,200)	(12,871)	47	(4,543)
<b>Pre-Tax Profit</b>	<b>71,128</b>	<b>32,884</b>	<b>30,273</b>	<b>28,581</b>
6 Taxes	(35,809)	(16,314)	(11,570)	(10,770)
<b>Profit After Tax</b>	<b>35,319</b>	<b>16,570</b>	<b>18,703</b>	<b>17,812</b>

## C RATIO ANALYSIS

### 1 Performance

Net Mark Up Income / Avg. Assets	5.0%	3.8%	3.3%	4.1%
Non-Mark Up Expenses / Total Income	48.9%	53.6%	56.5%	51.2%
ROE	31.8%	17.9%	22.0%	25.2%

### 2 Capital Adequacy

Equity / Total Assets (D+E+F)	4.6%	4.2%	4.9%	5.2%
Capital Adequacy Ratio	15.8%	14.7%	13.5%	15.1%

### 3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	62.5%	57.2%	52.6%	62.1%
(Advances + Net Non-Performing Advances) / Deposits	45.0%	51.9%	56.0%	46.4%
CA Deposits / Deposits	48.6%	52.2%	51.5%	50.2%
SA Deposits / Deposits	36.5%	30.3%	29.8%	29.8%

### 4 Credit Risk

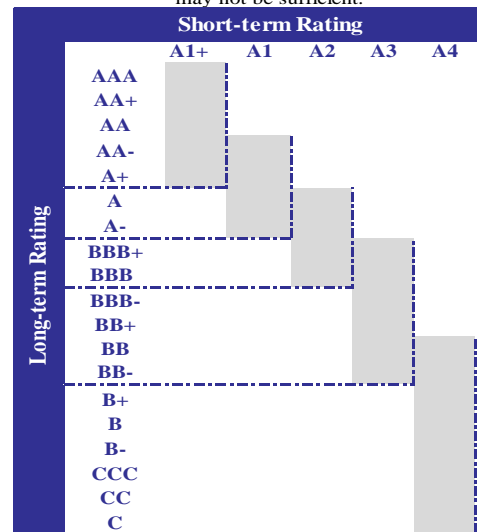
Non-Performing Advances / Gross Advances	2.8%	1.8%	1.0%	1.4%
Non-Performing Finances-net / Equity	-1.1%	-3.2%	-5.9%	-6.6%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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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(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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- (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)
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### **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).
- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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