



The Pakistan Credit Rating Agency Limited

BANK AL HABIB LIMITED (BAHL)

RATING REPORT

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

DECEMBER 2017

Assets:

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

Funding

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

Credit Risk

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

Market Risk

- The investment book (PKR 465bln) is dominated by government securities – T bills and PIBs. The PIBs were mostly classified in 'Available for Sale' category.

Performance

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

Capital

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

Term Finance Certificate

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

Governance and management

- BAHL's ten-member BoD includes four representatives of Habib family while one member represents NIT.
- Mr. Mansoor Ali Khan, the bank's CEO, has been associated with the bank for over twenty years. He is assisted by an able and experienced team.

RATING RATIONALE

The rating reflects the bank's sustained performance, exceptional asset quality, satisfactory financial profile and strong liquidity. The bank has solidified its relative positioning in the universe of large sized banks with maintained share in the country's customer deposits. The bank continued with its strategy for outreach expansion - adding significant branches every year. The strength of the bank is reflected in the high proportion of retail deposits in the total: concentration is low and hence risk is reduced. Trade finance is the bank's hallmark, yet the bank is building alternative revenue streams, while exploring opportunities in CPEC related projects. The rating draws comfort from bank's experienced management team, prudent risk management policies and deep rooted relationship with clients - borrowers as well as depositors. The instrument rating takes fundamental comfort from the bank's current reported CET1 (Dec 2016: 10.6%).

KEY RATING DRIVERS

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

TIER I TFCs

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



BANK AL HABIB LIMITED (BAHL)

BALANCE SHEET	30-Sep-17	31-Dec-16	30-Sep-16	31-Dec-15
Earning Assets				
Advances (Net of Provision)	304,029	263,552	239,166	209,828
Debt Instruments	3,960	6,712	4,577	4,615
Total Finances	307,989	270,263	243,743	214,443
Investments	461,062	398,316	401,903	352,034
Others	8,966	7,461	10,545	10,671
	778,017	676,041	656,191	577,147
Non Earning Assets				
Non-Earning Cash	54,974	46,005	44,606	38,577
Deferred Tax	-	-	-	-
Net Non-Performing Finances	(2,194)	(2,112)	(1,678)	(2,539)
Fixed Assets & Others	32,798	31,461	26,380	26,788
	85,578	75,354	69,307	62,826
TOTAL ASSETS	863,595	751,395	725,499	639,973
Interest Bearing Liabilities				
Deposits	671,304	584,172	574,043	516,213
Borrowings	116,807	97,717	84,731	65,587
	788,110	681,888	658,775	581,800
Non Interest Bearing Liabilities	31,164	26,994	26,036	20,316
TOTAL LIABILITIES	819,275	708,882	684,811	602,117
EQUITY (including revaluation surplus)	44,320	42,513	40,688	37,857
TOTAL LIABILITIES & EQUITY	863,595	751,395	725,499	639,973
INCOME STATEMENT	30-Sep-17	31-Dec-16	30-Sep-16	31-Dec-15
Interest / Mark up Earned	37,217	47,804	36,277	50,293
Interest / Mark up Expensed	(18,020)	(23,133)	(17,614)	(25,476)
Net Interest / Markup revenue	19,197	24,672	18,664	24,817
Other Income	6,606	5,052	3,339	4,511
Total Revenue	25,802	29,724	22,003	29,328
Non-Interest / Non-Mark up Expensed	(15,104)	(17,198)	(13,399)	(14,997)
Pre-provision operating profit	10,698	12,526	8,604	14,330
Provisions	(166)	638	782	(1,999)
Pre-tax profit	10,532	13,164	9,386	12,332
Taxes	(4,131)	(5,045)	(3,959)	(4,927)
Net Income	6,401	8,119	5,427	7,405
Ratio Analysis	30-Sep-17	31-Dec-16	30-Sep-16	31-Dec-15
Performance				
ROE	23.8%	24.0%	22.3%	25.0%
Cost-to-Total Net Revenue	58.5%	57.9%	60.9%	51.1%
Provision Expense / Pre Provision Profit	1.6%	-5.1%	-9.1%	13.9%
Capital Adequacy				
Equity/Total Assets	4.5%	4.8%	4.6%	5.0%
Capital Adequacy Ratio as per SBP	12.6%	14.2%	15.2%	13.8%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	62.5%	62.3%	65.8%	65.9%
Advances / Deposits	45.0%	44.8%	41.4%	40.2%
CASA deposits / Total Customer Deposits	82.7%	79.8%	77.7%	76.1%
Intermediation Efficiency				
Asset Yield	6.9%	7.7%	7.9%	9.2%
Cost of Funds	3.3%	3.7%	3.8%	4.6%
Spread	3.6%	4.0%	4.1%	4.7%



STANDARD RATING SCALES & DEFINITIONS

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

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>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.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>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.</p>	
B+ B B-	<p>High credit risk.</p> <p>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.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“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.</p>	
D	Obligations are currently in default.	

Rating Watch

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

Outlook (Stable, Positive, Negative, Developing)

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

Suspension

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

Withdrawn

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

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

BANK AL-HABIB LIMITED
Banking
Solicited
Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Outlook	Action
28-Dec-17	AA	Stable	Maintain
22-Jun-17	AA	Stable	Maintain
24-Jun-16	AA	Stable	Maintain
06-Apr-16	AA	Stable	Initial
29-Feb-16	AA	Stable	Preliminary

Instrument Details

Instrument	Size of Issue (PKR mln)	Tenor (yrs) & Maturity	Intallment Frequency	Rate	Major Principal Redemption	Call Option	Trustee
PPTFC-V: Unsecured, subordinated	4000 Inclusive of green shoe option of PKR 1,000mln	10yrs - Jan-2026	Semi-annual	6M-KIBOR+75bps	49.82% each in the 10th year	Call option on any profit payment date on or after 5 years of issue date with prior approval of SBP	Pak Brunei Investment Co. Limited

Related Criteria and Research

Rating Methodology
Sector Research

Bank Rating Methodology
Banking Sector - Viewpoint | June - 17

Rating Analysts

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

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

[Rating Team Statement](#)

Rating Procedure

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

[Disclaimer](#)

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on

investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such

cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

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 ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the

market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the

company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by

such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to

clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA

has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent.

PACRA reports and ratings constitute opinions, not recommendations to buy or to sell

[Probability of Default \(PD\)](#)

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



Regulatory and Supplementary Disclosure

Name of Issuer
Sector
Type of Relationship

BANK AL-HABIB LIMITED
Banking
Solicited

Purpose of the Rating

Independent Risk Assessment
Regulatory Requirement

Rating History

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

Instrument Details

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

Related Criteria and Research

Rating Methodology
Sector Research

Bank Rating Methodology
Banking Sector - Viewpoint | June - 17

Rating Analysts

Faraan Taimoor faraan.taimoor@pacra.com (92-42-35869504)	Jhangeer Hanif jhangeer.hanif@pacra.com (92-42-35869504)
--	--

[Rating Team Statement](#)

Rating Procedure

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

[Disclaimer](#)

Rating Shopping

PACRA maintains principle of integrity in seeking rating business. PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

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 ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may reasonably be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell

[Probability of Default \(PD\)](#)

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