

RATINGS (JUNE 2011)

BANK AL HABIB LIMITED (BAHL)

	New	Previous
Entity		
Long Term	AA+	AA+
Short Term	A1+	A1+
TFCs / Sukuks		
1 st Issue PKR 1,350mln	AA	AA
2 nd Issue PKR 1,500mln	AA	AA
3 rd Issue PKR 2,000mln	AA	AA
4 th Issue PKR 3,000mln	AA	-

FINANCIAL DATA

(Amounts in PKR mln)

	Mar-11	Dec-10	Dec-09
Total Assets	321,132	301,552	249,806
Equity	14,283	14,706	12,286
Net Income	1,035	3,602	2,856
ROE (%)	*28.6	26.7	25.7
ROA (%)	*1.3	1.3	1.3
Equity/ Total Assets (%)	4.5	4.9	4.9
Net NPLs / Equity (%)	-5.9	-2.5	-2.6
SBP CAR (%)	11.9	12.8	14.9

*Annualized

ANALYSTS

Amara Gondal
+92 42 3586 9504
amara.gondal@pacra.com

Jhangeer Hanif
+92 42 35869504
Jhangeer@pacra.com

TFC ISSUES

- Bank AL Habib issued its first unsecured subordinated TFC of PKR 1,350mln for a tenor of 8 years in July 2004. The profit payment is made semi-annually, based on 6-month KIBOR plus 150bps with a floor of 3.5% and a cap of 10%. Major principal redemption will be in three semi-annual installments, commencing from the 84th month (July 2011) of the issue.
- The bank issued its second unsecured subordinated TFC of PKR 1,500mln in February 2007 for a tenor of 8 years. The profit is payable on semi-annual basis at 6-month KIBOR plus 195bps with no floor and cap. The major principal redemption will be in two equal semi-annual installments, starting from 90th month (August 2014).
- The bank issued its third privately placed, unsecured subordinated TFC of PKR 2,000mln for a tenor of 8 years in June 2009. The profit is payable quarterly in arrears at 15.50% (Year 1-5) and at 16% (Year 6-8) per annum. The major principal redemption is in four quarterly installments of 24.86% each, starting from the 87th month (September 2016).
- The bank is in process of issuing fourth privately placed, unsecured subordinated TFC of PKR 3,000mln for a tenor of 10 years in June 2011. The profit is payable semi-annually in arrears at 15% (Year 1-5) and at 15.5% (Year 6-10) per annum. The major principal redemption will be in tenth year in semi-annual equal installment. The bank would have call option, subject to SBP approval, to be effective after five years of issue.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the bank's sustained performance, exceptional asset quality, and satisfactory financial profile. The ratings draw comfort from prudent risk management policies and the management's conservative risk appetite. The management is endeavoring to diversify its advances portfolio by venturing into new segments, capitalizing on its well established branch network, which continues to expand – and has enabled the bank to develop a sound deposit base.
- The bank's ability to sustain its robust asset quality remains critical. Moreover, enhancement in the core banking software and related MIS reporting would be important to facilitate expanding business.

ASSESSMENT

- The macroeconomic landscape of Pakistan remains uncertain. Although a few indicators have improved as reflected in current account surplus of the country, prolonged energy crisis, rising inflationary pressure, burgeoning fiscal imbalance, and law and order situation continue to pose major challenges to economic growth. This is also reflected in continued weakening in the asset quality of the banks. The pace of accumulation of NPLs has slowed down, but it would be challenging for the banks to maintain asset quality amidst uncertainties regarding the recovery prospects and subdued business sentiments.
- During 2010, BAML posted a growth of 19% in advances (2009: 6%), while continuing its strong deposit mobilization drive as reflected by substantially higher (32%) deposit base. Resultantly, the ADR of the bank declined (2010: 50%, 2009: 56%) as it routed the excess liquidity towards investments – majority in market treasury bills. Though the bank's cost of funds improved (2010: 6.6%, 2009: 6.7%), the spread observed a slight decline (2010: 4.6%, 2009: 5.0%) due to change in earning assets mix in favour of relatively low-yielding Government securities. However, the bank's other operating income increased, on the back of higher contribution from dividend and dealing in foreign trade. BAML largely maintained its cost-to-total net revenue ratio, despite the bank's growth strategy and resultant branch expansion. Consequently, the bank's performance in terms of ROA and ROE remains robust, relatively higher among mid-sized banks. The bank continued strong performance trend in 1QCY11.
- Going forward, the bank intends to further strengthen its competitive positioning and capitalize on its expanding outreach to attract stable and low cost deposits, particularly from individuals and retail customers. Moreover, the management plans to target trade finance, commodity finance with major focus on foreign trade. The bank's in-house built core banking software provides adequate support to its operations. Nevertheless, continuous development and up-gradation of BAML's IT infrastructure would remain critical to enable the bank to enhance operational efficiency and further improve control mechanism.
- BAML continues to enjoy outstanding asset quality, as reflected by its NPLs to Net Advances ratio (2.28%), though increased YoY, yet, the lowest in the banking industry. The advances portfolio is dominated by corporates (90%), followed by SME (5%), consumer (2%), and others. The client concentration remains high, with top 20 clients (group exposures) comprising around 48% (2009: 41%) of the total advances. A relatively high exposure to textile sector (45%) is mitigated to a certain extent due to diversification within sector. The bank's credit quality is augmented by mostly self liquidation nature of loans (working capital) supported by the cautious credit appraisal process and regular monitoring. The bank continues to refine its own internal rating system in order to ensure sustainable credit quality of the advances portfolio, inline with its prudent criteria.
- During 2010, the deposit mix of the bank remained largely the same with favorable CASA deposits at 62%. Meanwhile, the bank has a large diversified depositor base with few depositors holding more than 1% of total deposits. The Investments portfolio of PKR 127bln constituted ~45% of total assets at end-Dec10. The investment book was dominated by government securities (98.7%), followed by mutual funds (0.9%), and equities (0.4%).
- The bank's capitalization improved on the back of healthy profitability during 2010. BAML's equity-to-total-assets (4.9%) remains above those of peers. Though BAML's CAR has declined on account of rise in the risk weighted assets, the bank has adequate risk absorption capacity as compared to its peers. Tier I capital was supplemented by strong profitability during 2010, while the bank is in process of issuing a subordinated TFC of PKR 3,000mln to enhance its tier II capital.

PROFILE

- Bank AL Habib's sponsors are members of the Habib family – one of the oldest and most distinguished names in Pakistan's banking sector. They are actively involved in the management of the bank. Mr. Abbas D. Habib, the CEO, is with the bank since its inception. He has over four decades of experience in domestic and international markets. He is backed by a team of experienced professionals, most of whom have long association with the bank. The bank operates a network of 314 branches/ sub-branches/ representative office (end-Mar11). The network includes two overseas offices - a Wholesale Branch in the Kingdom of Bahrain and a representative office in Dubai, U.A.E
- The bank's main activities are short-term lending, mainly trade finance related and seasonal running finance. Currently, BAML represents around 4.5% (2009: 4.2%) of the total banking sector assets, and operates with a network of over 314 branches/ sub-branches/ representative office.

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