

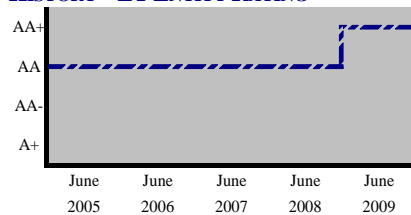
The Pakistan Credit Rating Agency Limited

RATINGS (JUNE 2009)

BANK AL HABIB LIMITED (BAHL)

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

HISTORY – LT ENTITY RATING



FINANCIAL DATA

(Amounts in PKR mln)

	Mar 09 [^]	Dec-08	Dec-07
Total Assets	196,898	177,324	141,234
Equity	10,062	9,967	8,014
Net Income	678	2,425	2,211
ROE (%)	27.1	27.0	31.2
ROA (%)	1.5	1.5	1.7
Equity/ Total Assets (%)	5.1	5.6	5.7
Net NPLs / Equity %	-5.1	-3.4	-0.1

[^] Based on unaudited results for 3 months ended March 31, 2009.

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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).

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the bank's exceptional asset quality and robust financial profile, an outcome of management's prudent risk management policies and low risk appetite. The management's proactive stance towards strengthening its systems and controls and initiatives in product innovation, technology upgradation and outreach expansion have assisted growth prospects, while improving the bank's relative positioning among peers. Meanwhile, the bank continues to sustain a strong foothold in its core area of focus – trade finance to commercial segment - despite intensifying competition.
- The ratings are dependent on the management's ability to fortify its positioning in the sector by leveraging its expanding network. Though the bank has efficient risk management systems in place, given the prolonged downturn in textile industry and BAH's significant exposure in the sector, any material deterioration in asset quality may impact the ratings.

ASSESSMENT

- CY08 proved to be a challenging year for the whole banking industry. The sector faced difficult times and the deteriorating macroeconomic factors, power shortages and worsening law and order situation affected the asset quality of the banks, leading to a rising trend in NPLs across the sector. Moreover, heavy government borrowing from the banking sector created tight liquidity scenario and 'crowded out' the private sector.
- Despite tough operating environment, BAH continued with its growth momentum, as evident by the substantial increase in advances and deposits, comfortably outpacing the peers and sector growth rates. The substantial growth in the net interest revenue on the back of enhanced quantum of business and higher asset yield led to better spreads. Although higher provisioning expense and diminution in investments impacted the bottomline, the overall profitability of the bank improved due to strong contribution of non-fund based income. The net income would have been higher, but the bank made a general provision of PKR 700mln, as a matter of prudence, which is over and above the regulatory requirement. The bank continued its strong performance trend during 1Q09.
- Going forward, the bank intends to capitalize on its expanding outreach to attract stable deposits, particularly from individuals and retail customers by designing innovative products. The management remains wary of aggressive expansion in the consumer segment due to high risk nature of the business. The bank is continuously upgrading its IT systems to strengthen its technology infrastructure. In this regard, the management is moving towards centralized operational approach to enhance efficiency, further improve control mechanism and to ensure quality of services.
- The advances portfolio is dominated by corporates. BAH also participates in the SME sector, but continues to have a conservative approach to consumer financing. The client concentration remains high, with top 20 client (group) exposures comprising substantial part (around 32%) of total advances. In terms of sectoral analysis, the textile sector dominates the loan book, though gradually being rationalized in favor of other emerging sectors as part of management's diversification strategy. The bank maintained its outstanding asset quality. Although the NPLs of the bank increased on YoY basis, they remain insignificant and have no bearing on the equity of the bank.
- During 2008, the deposit mix of the bank changed with proportion of time deposit increasing at the expense of demand and saving deposits, leading to higher cost of funds. Meanwhile, the bank continues to have a broad base of depositors, signifying strong brand recognition. Moreover, the bank's expanding outreach would further augment the bank's ability to mobilize deposits. Cognizant of the current market dynamics, the management has been maintaining high liquidity, which will help to withstand any unforeseen contingencies. The ALCO rigorously monitors the liquidity position of the bank. Moreover, the management has substantially increased the portion of government securities in the investment portfolio to further supplement its liquidity position.
- The bank's CAR improved during the year. Tier II capital of the bank would be further strengthened by the recent TFC issue of PKR 2,000mln, which was arranged by the bank and privately placed. This would enhance the CAR and provide additional cushion to achieve growth targets.

PROFILE

- Bank AL Habib's sponsors are members of the Habib family – one of the oldest and most distinguished name in Pakistan's banking circles. 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 40 years 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's main activities are short-term lending, mainly trade finance related and seasonal running finance. The bank operates a network of over 240 branches, covering major cities and towns in Pakistan and a Wholesale Branch in the Kingdom of Bahrain.