

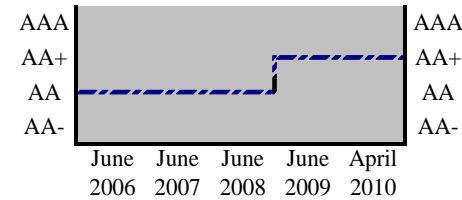
The Pakistan Credit Rating Agency Limited

RATINGS (MAY 2010)

BANK AL HABIB LIMITED (BAHL)

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

HISTORY – LT ENTITY RATING



FINANCIAL DATA

(Amounts in PKR mln)

	Dec-09	Dec-08	Dec-07
Total Assets	249,806	177,324	141,234
Equity	12,286	9,967	8,014
Net Income	2,856	2,425	2,211
ROE (%)	25.6	27.0	31.2
ROA (%)	1.3	1.5	1.7
Equity/ Total Assets (%)	4.9	5.6	5.7
Net NPLs / Equity (%)	-2.6	-3.4	-0.1
SBP CAR (%)	14.9	11.1	10.4

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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 84th month (September 2016).

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 ratings incorporate the bank's focus towards product innovation and outreach expansion to manage competitive pressure. Meanwhile, the management is focusing to diversify its advances portfolio by venturing into new segments, capitalizing on its well established branch network, which continues to expand.
- 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 global financial crisis impacted the Pakistani economy with a lagged effect. Although certain macroeconomic indicators have improved, chronic power crisis, stubborn inflationary pressure and adverse law and order situation continue to affect the overall economic activity. This is also reflected in weakening the asset quality of the banks during CY09. Moreover, heavy government borrowing for budgetary support, high cost of funds, and the banking sector's cautious approach kept private sector credit off-take limited. The pace of accumulation of NPLs has stalled lately but it would be challenging for the banks to maintain asset quality amidst uncertainties regarding the recovery prospects and subdued business sentiments.
- In line with sector trend and following a cautious stance, BAHL posted moderate growth in advances (6%) during CY09, while continuing its strong deposit mobilization drive as reflected by substantially higher deposit base (31%). Consequently, the ADR of the bank declined (2009:56%, 2008: 69%) as it routed the excess liquidity towards investments. The bank's performance in terms of ROA and ROE remains robust, highest among mid-sized banks. BAHL's net interest income registered significant growth, on the back of increased quantum of earning assets and an increase in the bank's spreads, albeit modest (2009: 5.41%, 2008: 5.21%). However, the bank's other operating income declined, due to lower dividend income and less contribution from dealing in foreign currencies. BAHL maintained its cost-to-total net revenue ratio, despite the bank's growth strategy and resultant branch expansion. Although higher provisioning expense impacted the bottom-line, the overall profitability of the bank improved. The bank continued strong performance trend in 1QCY10.
- BAHL continues to enjoy outstanding asset quality, as reflected by its NPLs to Net Advances ratio (1.95%), lowest in the banking industry. The advances portfolio is dominated by corporates, while SME, consumer and others representing the remaining portion. The client concentration remains high, with top 20 clients (group exposures) comprising around 41% (2008: 32%) of the total advances. A relatively high exposure to textile sector is mitigated to a certain extent due to diversification within sector. The bank's credit quality is supported by mostly self liquidation nature of loans (working capital) and the cautious credit appraisal process and regular monitoring.
- During 2009, the deposit mix of the bank remained largely the same, with a slight increase in the proportion of saving deposit with a beneficial reduction in time deposits. Meanwhile, the bank has a large diversified depositor base, signifying strong brand recognition. The investment portfolio of the bank increased significantly over the year. In the wake of the current market dynamics and adhering to its conservative approach, the management has reverted to high liquidity position with major investment in government securities (97%).
- Going forward, the bank intends to further strengthen its foot print and capitalize on its expanding outreach to attract stable and low cost deposits, particularly from individuals and retail customers by designing innovative and market oriented products. Moreover, the management envisions loan deployment in untapped sectors to further diversify the advances portfolio. The bank's in-house built core banking software provides adequate support to its operations. Nevertheless, continuous development and up-gradation of BAHL's IT infrastructure would remain critical to enable the bank to enhance operational efficiency as well as further improve the control mechanism.
- The bank has adequate risk absorption capacity. BAHL's CAR improved considerably during the year on account of increase in both tier I and tier II capital, showing ample room for expansion. Tier I capital was supplemented by strong profitability, while the bank issued a subordinate TFC of PKR 2,000mln in June 2009 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's main activities are short-term lending, mainly trade finance related and seasonal running finance. The bank operates with a network of over 255 branches, covering major cities and towns in Pakistan and a Wholesale Branch in the Kingdom of Bahrain.