The Pakistan Credit Rating Agency Limited

BANK AL HABIB LIMITED (BAHL)

	NEW [JUN-17]	PREVIOUS [JUN-16]
Long-term	AA+	AA+
Short-term	A1+	A1+
Privately Placed TFC-V	AA	AA
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2017

Assets:

- During CY16, the bank's total earning assets grew by 17%, primarily due to increase in Advances (advances increased by PKR 53bln – primarily funded by deposits)
- During CY16, BAHL's finances portfolio, representing 36% (CY15: 33%) of total assets, experienced growth (CY16: 26%, CY15: 13%), wherein the growth was predominantly driven by lending to the private sector, particularly in commerce and trade.
- The ADR increased to 45% (CY15:40%) mainly because of superior growth of 26% in advances as compared to 14% industry growth.

Funding

- The main source of BAHL's funding is its deposit base comprising 82% of total liabilities at end-Dec16, followed by borrowings (14%). The bank's deposit base posted a growth of 13%, in line with the industry growth thus maintaining the bank's system share at 5.2% in CY16 (CY15: 5.2%).

Credit Risk

- The advances portfolio is dominated by corporate/commercial sector (70%), followed by consumer & staff loans (4%), and SME (5%).
- Owing to bank's prudent approach towards provisioning, its coverage ratio stands at 137%. Due to a decrease of PKR 159mln in NPL's, infection ratio stands at 2.1% – it is lowest amongst peers.

Market Risk

- The investment book is dominated by government securities (98%) – T bills 58% and PIBs 36%.The PIB's were mostly classified as 'Held to Maturity' (64%) whereas the rest belonged to the 'Available for Sale' category.

Performance

- The bank's asset yield witnessed a drop (CY16: 7.8%, CY15: 9.2%) due to prevailing interest rate environment and sizeable reduction of high yielding PIBs in the overall earning assets.
- The bank's other operating income surged up by 12% due to higher contribution from fee, commission and brokerage and gain on sale of investment.
- With a reversal in the provisioning expense, the bottom-line increased by 9.6% in spite of a reduced 12.5% pre-provision operating profit as compared to last year.

Capital

- BAHL's paid-up capital stands at PKR 11,114mln, thus meeting the MCR of PKR 10,000mln for end-Dec16.
- BAHL has a CAR of 14.2% at Dec-16, (CY15: 13.8%), with contribution from Tier I capital (10.6%) and Tier II capital (3.6%).
- Bank's performance in terms of ROE (24%) remains robust.

Business Strategy

- Going forward, BAHL envisages fortifying its market positioning; meanwhile, the focus is on enhancing its profitability via mobilization of low cost deposits and achieving greater operational efficiency.
- At the same time, selective diversification and monitoring of credit exposures would continue to remain an area of focus.

Profile

- BAHL was incorporated in Oct 1991. The bank opened 77 new branches/sub branches during CY16, bringing its network to 605 branches / sub-branches, including 41 Islamic banking branches.

Governance and management

- BAHL's ten-member BoD includes four representatives of Habib family and three independent members.
- Mr. Mansoor Ali Khan, the bank's CEO, was appointed in November 2016.He has been associated with the bank for over twenty years.
- He is backed by a team of experienced professionals, most of whom have long association with the bank.

RATING RATIONALE

The ratings reflect 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; slightly up in 1Q17. 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 reduced risk. Trade finance is the bank's hallmark yet the bank is building alternative revenue streams, while exploring opportunities in CPEC related projects. The ratings draw comfort from bank's experienced management team, prudent risk management policies and deep rooted relationship with clients - borrowers as well as depositors.

KEY RATING DRIVERS

The ratings are 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 equity base of the bank and CAR are satisfactory, and may need to be enhanced in view of the expected growth in loans and advances.

DEBT INSTRUMENT

At end-Mar17, BAHL has one unlisted TFC 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 or thereafter with prior approval of SBP.

INDUSTRY SNAPSHOT

The banking sector experienced substantial expansion in its deposit base (2016: 14%). Building on the uptick in the economy, advances also grew by a sizeable margin after a lag of many years. Given GDP growth in FY17 and other macro-economic fundamentals, credit expansion is foreseen. Hence, CAR is going to be a challenge, as profits would also suffer due to PIBs maturities.

BANK AL HABIB LIMITED (BAHL)

BALANCE SHEET	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
Earning Assets				
Advances (Net of NPL)	296,032	263,552	209,828	182,948
Debt Instruments	6,299	6,712	4,615	6,065
Total Finances	302,331	270,263	214,443	189,013
Investments	418,608	398,316	352,034	325,358
Others	7,936	7,461	10,671	7,026
	728,875	676,041	577,147	521,397
Non Earning Assets				
Non-Earning Cash	47,630	46,005	38,577	31,521
Deferred Tax	-	-	-	-
Net Non-Performing Finances	(2,067)	(2,112)	(2,539)	(1,591)
Fixed Assets & Others	28,649	31,461	26,788	27,593
	74,213	75,354	62,826	57,522
TOTAL ASSETS	**803,088**	**751,395**	**639,973**	**578,919**
Interest Bearning Liabilities				
Deposits	624,667	584,172	516,213	446,409
Borrowings	108,585	97,717	65,587	82,199
	733,252	681,888	581,800	528,608
Non Interest Bearing Liabilities	29,335	26,994	20,316	17,682
TOTAL LIABILITIES	**762,587**	**708,882**	**602,117**	**546,290**
EQUITY (including revaluation surplus)	**40,501**	**42,513**	**37,857**	**32,629**
TOTAL LIABILITIES & EQUITY	**803,088**	**751,395**	**639,973**	**578,919**

INCOME STATEMENT	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
Interest / Mark up Earned	12,143	47,804	50,293	44,001
Interest / Mark up Expensed	(5,939)	(23,133)	(25,476)	(24,937)
Net Interest / Markup revenue	6,204	24,672	24,817	19,064
Other Income	2,009	5,052	4,511	3,808
Total Revenue	8,213	29,724	29,328	22,872
Non-Interest / Non-Mark up Expensed	(4,806)	(17,198)	(14,997)	(12,402)
Pre-provision operating profit	3,407	12,526	14,330	10,470
Provisions	202	638	(1,999)	(553)
Pre-tax profit	3,609	13,164	12,332	9,917
Taxes	(1,305)	(5,045)	(4,927)	(3,568)
Net Income	**2,305**	**8,119**	**7,405**	**6,349**

Ratio Analysis	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
Performance				
ROE	28.5%	24.0%	25.0%	25.0%
Cost-to-Total Net Revenue	58.5%	57.9%	51.1%	54.2%
Provision Expense / Pre Provision Profit	-5.9%	-5.1%	13.9%	5.3%
Capital Adequacy				
Equity/Total Assets	4.3%	4.8%	5.0%	4.8%
Capital Adequacy Ratio as per SBP	14.2%	14.2%	13.8%	14.9%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	60.5%	62.3%	65.9%	64.9%
Advances / Deposits	47.1%	44.8%	40.2%	40.6%
CASA deposits / Total Customer Deposits	80.6%	79.8%	76.1%	76.0%
Intermediation Efficiency				
Asset Yield	7.0%	7.7%	9.2%	9.5%
Cost of Funds	3.4%	3.7%	4.6%	5.2%
Spread	3.6%	4.0%	4.7%	4.2%

CREDIT RATING SCALE & 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

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** 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.
BB+ BB BB-	**Moderate risk.** 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.
B+ B B-	**High credit risk.** 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.
CCC CC C	**Very high credit risk**. 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.
D	Obligations are currently in default.

SHORT TERM RATINGS

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

Regulatory and Supplementary Disclosure

Name of Issuer BANK AL-HABIB LIMITED
Sector Banking
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Outlook	Action
22-Jun-17	AA+	Stable	Maintain
24-Jun-16	AA+	Stable	Maintain
24-Jun-15	AA+	Stable	Maintain
26-Jun-14	AA+	Stable	Maintain
26-Jun-13	AA+	Stable	Maintain

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 Bank Rating Methodology
Sector Research 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.

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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

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