The Pakistan Credit Rating Agency Limited

# BANK AL HABIB LIMITED (BAHL)

| TFCs | [NOV-17] PRELIMINARY |
|---|---|
| TFC- VI<br><br>PKR 7,000mln (Inclusive of a Green Shoe option of PKR 2,000mln) | AA |

**REPORT CONTENTS**



NOVEMBER 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).

The Pakistan Credit Rating Agency Limited

FINANCIAL SUMMARY

## 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 Bearning 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% |

# 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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 |
|---|---|---|---|
| | | | |
| 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 Bank Rating Methodology
Sector Research Banking Sector - Viewpoint | June - 17

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Rating Team Statement

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