



The Pakistan Credit Rating Agency Limited

## Rating Report

### Bank Al Habib Limited | PPTFC V | Mar-16

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
	AA	-	Stable	Maintain	-
30-Dec-2017	AA	-	Stable	Maintain	-
22-Jun-2017	AA	-	Stable	Maintain	-
24-Jun-2016	AA	-	Stable	Maintain	-
06-Apr-2016	AA	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the bank's sustained performance, exceptional asset quality, satisfactory financial profile and healthy liquidity. The bank has solidified its relative positioning in the universe of large sized banks by improving its market share in terms of deposit base and advances book. The bank continued with its strategy for outreach expansion - adding significant branches every year – resulting in marginal uptick in cost-to-total net revenue. The strength of the bank is reflected in the high proportion of retail deposits in the total. Concentration is low and 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 the bank's experienced management team, prudent risk management policies and deep rooted relationship with clients - borrowers as well as depositors. The bank has lately issued Additional Tier-1 debt instrument, which has augmented the bank's CAR, while providing room for growth.

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.

#### Disclosure

<b>Name of Rated Entity</b>	Bank Al Habib Limited   PPTFC V   Mar-16
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Debt Instruments Rating Methodology(Jun-17),Methodology   Bank Rating(Jun-17),Rating Methodology   Basel III Instruments(Mar-18)
<b>Related Research</b>	Sector Study   Commercial Bank(Jun-18)
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**BANK AL HABIB LIMITED (BAHL)**

<b>BALANCE SHEET</b>	<b>30-Mar-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
<b>Earning Assets</b>				
Advances (Net of Provision)	354,744	342,177	263,552	209,828
Debt Instruments	3,674	4,857	6,712	4,615
Total Finances	358,418	347,034	270,263	214,443
Investments	417,087	471,268	398,316	352,034
Others	11,467	9,648	7,461	10,671
	786,973	827,950	676,041	577,147
<b>Non Earning Assets</b>				
Non-Earning Cash	54,106	55,140	46,005	38,577
Deferred Tax	-	-	-	-
Net Non-Performing Finances	(2,325)	(2,344)	(2,112)	(2,539)
Fixed Assets & Others	37,487	38,306	31,461	26,788
	89,268	91,101	75,354	62,826
<b>TOTAL ASSETS</b>	<b>876,241</b>	<b>919,052</b>	<b>751,395</b>	<b>639,973</b>
<b>Interest Bearing Liabilities</b>				
Deposits	718,260	692,576	584,172	516,213
Borrowings	71,170	144,497	97,717	65,587
	789,430	837,074	681,888	581,800
<b>Non Interest Bearing Liabilities</b>	42,161	36,102	26,994	20,316
<b>TOTAL LIABILITIES</b>	<b>831,591</b>	<b>873,176</b>	<b>708,882</b>	<b>602,117</b>
<b>EQUITY (including revaluation surplus)</b>	<b>44,649</b>	<b>45,876</b>	<b>42,513</b>	<b>37,857</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>876,241</b>	<b>919,052</b>	<b>751,395</b>	<b>639,973</b>

<b>INCOME STATEMENT</b>	<b>30-Mar-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
Interest / Mark up Earned	13,207	50,305	47,804	50,293
Interest / Mark up Expensed	(6,173)	(24,387)	(23,133)	(25,476)
<b>Net Interest / Markup revenue</b>	<b>7,033</b>	<b>25,918</b>	<b>24,672</b>	<b>24,817</b>
Other Income	1,503	8,201	5,052	4,511
<b>Total Revenue</b>	<b>8,536</b>	<b>34,119</b>	<b>29,724</b>	<b>29,328</b>
Non-Interest / Non-Mark up Expensed	(5,402)	(20,194)	(17,198)	(14,997)
Pre-provision operating profit	3,134	13,925	12,526	14,330
Provisions	271	115	638	(1,999)
Pre-tax profit	3,405	14,040	13,164	12,332
Taxes	(1,317)	(5,391)	(5,045)	(4,927)
<b>Net Income</b>	<b>2,088</b>	<b>8,650</b>	<b>8,119</b>	<b>7,405</b>

<b>Ratio Analysis</b>	<b>30-Mar-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
<b>Performance</b>				
ROE	20.8%	22.5%	24.0%	25.0%
Cost-to-Total Net Revenue	63.3%	59.2%	57.9%	51.1%
Provision Expense / Pre Provision Profit	-8.6%	-0.8%	-5.1%	13.9%
<b>Capital Adequacy</b>				
Equity/Total Assets	4.5%	4.4%	4.8%	5.0%
Capital Adequacy Ratio as per SBP	12.8%	13.8%	14.2%	13.8%
<b>Funding &amp; Liquidity</b>				
Liquid Assets / Deposits and Borrowings	59.9%	59.2%	62.3%	65.9%
Advances / Deposits	49.1%	49.1%	44.8%	40.2%
CASA deposits / Total Customer Deposits	82.8%	80.0%	79.8%	76.1%
<b>Intermediation Efficiency</b>				
Asset Yield	6.6%	6.7%	7.7%	9.2%
Cost of Funds	3.0%	3.2%	3.7%	4.6%
Spread	3.5%	3.5%	4.0%	4.7%



DEBT INSTRUMENT RATING SCALE & DEFINITIONS

The instrument rating reflects forward-looking opinion on credit worthiness of underlying debt 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		SHORT TERM RATINGS	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>	
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.		

<p>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’.</p>	<p>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.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information</p>
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**Disclaimer:** PACRA's ratings are an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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