The Pakistan Credit Rating Agency Limited

Rating Report

Bank AL Habib Limited | Tier-II TFC (TFC-VII)

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Oct-2018	AA	-	Stable	Preliminary	-

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 an uptick in cost-to-total net revenue. The strength of the bank is reflected in the high proportion of retail deposits in the total. Hence, 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 issued additional Tier-I instrument and now is in the process of issuing another Tier-II instrument, augmenting the bank's CAR and providing room for growth.

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 equity base of the bank and CAR are satisfactory and may continually be enhanced in view of the expected growth in loans.

Disclosure	
Name of Rated Entity	Bank AL Habib Limited | Tier-II TFC (TFC-VII)
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Bank Rating(Jun-17),Methodology | Basel III Compliant - Debt Instrument(Jun-18)
Related Research	Sector Study | Commercial Bank(Jun-18)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Bank AL Habib Limited (BAHL) Profile	
Incorporated	1991
Major Business	Commercial Banking
Legal Status	Listed
Head Office	Karachi

INDUSTRY

The banking sector has experienced highest growth in terms of advances in 2017 over the last decade. As a consequence, there is mounting pressure on capital adequacy ratio of the banks. The challenge is exacerbated as the internal generation of capital (profits) is witnessing a dip. Some relief on income side is expected with recent uptick in interest rates.

OWNERSHIP & GROUP PROFILE

- Habib family and friends, associates and group companies own majority stake (end-Jun18: 50.67%) in BAHL. Other major shareholders include National Investment Trust (5.51%) and State Life Insurance Corporation (6.61%).

GOVERNANCE & MANAGEMENT

- BAHL's ten-member BoD includes four representatives of Habib family while three are independent members.
- Mr. Mansoor Ali Khan, the bank's CEO, 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.

RISK MANAGEMENT

- During 1HFY18, the lending portfolio escalated to stand at PKR 447bln (end-Dec17: PKR 342bln), up 31%. This depicts bank's determination of sustaining its market share in terms of advances. Advances portfolio remained dominated by corporate/commercial sector, followed by SME and consumer loans.
- BAHL's advances portfolio constitutes 45% of total assets at end-June'18. (CY17: 38%)
- The bank's ADR increased to ~60% (end-Dec'17: 49%) on account of significant rise in advances portfolio. The industry's average ADR stood at ~50% as at end-Dec17.
- BAHL's coverage ratio further improved to 146% (end-Dec17: 144%) due to bank's prudent approach towards provisioning. Furthermore, infection ratio diluted to 1.1% (end-Dec17: 1.5%) - lowest amongst peers.
- As at end-Jun18, investment book declined by 7% to stand at PKR 436bln (end-Dec'17: PKR 471bln). Hence, IDR diluted to 59.9% (end-Dec17: 70.7%).
- The bank's liquidity, in terms of its Liquid Assets-to-Deposits and Borrowings ratio, stands at 49% at end-June'18 (end-Dec'17: 59%).

PERFORMANCE

- The bank's asset yield remained largely same at 6.4% (CY17: 6.7%).
- During 1HFY18, the bank's net interest income improved to PKR 14.9bln (1HFY17: PKR 12.7bln) primarily driven by sizeable growth in advances.
- BAHL's other operating income witnessed a dip to stand at PKR 3.3bln (1HCY17: PKR 4.9bln), down 32% YoY.
- The non-markup expenses surged to PKR 11.2bln (1HCY17: PKR 10.0bln) mainly on account of new branches. During 1HCY18, bottom-line stood at PKR 4.2bln (1HFY17: PKR 4.4bln), down 5% YoY.

CAPITAL AND FUNDING

- The main source of BAHL's funding is its deposit base comprising 78% of total liabilities during 1HFY18.
- BAHL's customer deposits posted a growth of 9.2% to stand at PKR 727bln (end-Dec17: PKR 666bln).
- During 1HFY18, the bank improved its CASA ratio at 83.2% (end-Dec17: 80.0%).
- The current CAR stood at 12.6% at end-Jun18 (end-Dec17: 13.8%) while Tier-I CAR stood at 10.04% (end-Dec17: 11.0%).
- BAHL's ROE stood at 20.4% (CY17: 22.5%), considered good among peers.

TERM FINANCE CERTIFICATE

- Currently, BAHL has one Tier II 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 (Tier I debt instrument issued in December 2017) is an unlisted, unsecured, subordinated, perpetual and non-cumulative debt instrument. The principal amount is PKR 7,000mln. The profit rate is 6M-KIBOR plus 150bps p.a. The instrument is perpetual in nature with no fixed redemption date. However, there exists a call option which may be availed after five years of issue date, with SBP's prior approval.
- BAHL is planning to issue TFC-VII which will be unlisted, unsecured and subordinated Term Finance Certificate issue of up to PKR 4bln, inclusive of Green Shoe option of PKR 1bln. The profit rate is 6M-KIBOR plus 100bps p.a. The tenor of instrument is up to 10 years and profit will be payable semi-annually in arrears on the outstanding principal amount. The instrument is structured to redeem 0.02% of the issue amount per semi-annual period, in the first nine years and remaining issue amount in two equal semi-annual installments of 49.82% each, in the tenth year. BAHL may call the TFCs (either partially or in full), with prior approval of SBP, on any profit payment date on or after five years from the date of issue.

The Pakistan Credit Rating Agency Limited

PKR Mln

BANK AL HABIB LIMITED (BAHL)

BALANCE SHEET	30-Jun-18	31-Dec-17	31-Dec-16	31-Dec-15
Earning Assets				
Advances (Net of Provision)	447,497	342,177	263,552	209,828
Debt Instruments	4,192	4,857	6,712	4,615
Total Finances	451,689	347,034	270,263	214,442
Investments	435,778	471,268	398,316	352,034
Others	8,084	9,648	7,461	10,671
	895,550	827,950	676,041	577,147
Non Earning Assets				
Non-Earning Cash	63,634	55,140	46,005	35,086
Deferred Tax	-	-	-	-
Net Non-Performing Finances	(2,328)	(2,344)	(2,112)	(2,539)
Fixed Assets & Others	44,868	38,306	31,461	30,279
	106,174	91,101	75,354	62,826
TOTAL ASSETS	**1,001,724**	**919,052**	**751,395**	**639,973**
Interest Bearning Liabilities				
Deposits	748,796	692,576	584,172	516,213
Borrowings	168,143	144,497	97,717	65,587
	916,939	837,074	681,888	581,800
Non Interest Bearing Liabilities	38,470	36,102	26,994	20,316
TOTAL LIABILITIES	**955,409**	**873,176**	**708,882**	**602,117**
EQUITY (including revaluation surplus)	**46,315**	**45,876**	**42,513**	**37,856**
TOTAL LIABILITIES & EQUITY	**1,001,724**	**919,052**	**751,395**	**639,973**

INCOME STATEMENT	30-Jun-18	31-Dec-17	31-Dec-16	31-Dec-15
Interest / Mark up Earned	27,388	50,305	47,804	50,293
Interest / Mark up Expensed	(12,461)	(24,387)	(23,133)	(25,476)
Net Interest / Markup revenue	14,927	25,918	24,672	24,817
Other Income	3,315	8,201	5,052	4,511
Total Revenue	18,241	34,119	29,724	29,328
Non-Interest / Non-Mark up Expensed	(11,228)	(20,194)	(17,198)	(14,997)
Pre-provision operating profit	7,014	13,926	12,526	14,330
Provisions	71	115	638	(1,999)
Pre-tax profit	7,084	14,041	13,164	12,332
Taxes	(2,883)	(5,391)	(5,045)	(4,927)
Net Income	**4,201**	**8,650**	**8,119**	**7,405**

Ratio Analysis	30-Jun-18	31-Dec-17	31-Dec-16	31-Dec-15
Performance				
ROE	20.4%	22.5%	24.0%	25.0%
Cost-to-Total Net Revenue	61.6%	59.2%	57.9%	51.1%
Provision Expense / Pre Provision Profit	-1.0%	-0.8%	-5.1%	13.9%
Capital Adequacy				
Equity/Total Assets	4.1%	4.4%	4.8%	5.0%
Capital Adequacy Ratio as per SBP	12.6%	13.8%	14.2%	13.8%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	48.9%	59.2%	62.3%	65.3%
Advances / Deposits	59.5%	49.1%	44.8%	40.2%
CASA deposits / Total Customer Deposits	83.2%	80.0%	79.8%	76.1%
Intermediation Efficiency				
Asset Yield	6.4%	6.7%	7.7%	9.2%
Cost of Funds	2.8%	3.2%	3.7%	4.6%
Spread	3.6%	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

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) 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 surveill the opinion due to lack of requisite information

Rating Team Statements
(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
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(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)

Conduct of Business
(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.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(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)

Independence & Conflict of interest
(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)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(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)
Proprietary Information
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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Privately Placed Tier-II TFC	4 Bn (Inclusive of Green Shoe Option of PKR 1 Bn)	10 years	Instrument will be unsecured and subordinated as to payment of principal and profit to other indebtedness of bank, including deposits, but will rank parri passu with other Tier-II instruments and superior to Additional Tier-I instruments.	N/A	N/A	Pak Brunei Investment Company Limited	N/A

Bank AL Habib Limited | Tier-II TFC | TFC VII | Nov'18	
Name of Issuer	Bank AL Habib Limited
Issue size	PKR 4 Bn (Inclusive of Green Shoe Option of PKR 1 Bn)
Tenor	10 years
Maturity	10 years from the date of issuance (unless Call Option is exercised)
Profit Rate	6 MK + 1.0%
Principal Repayment	The instrument is structured to redeem 0.02% of the Issue Amount per semi-annual period, in the first nine years and remaining Issue Amount in two equal semi-annual installments of 49.82% each, in the tenth year.
Security	Instrument will be unsecured and subordinated as to payment of principal and profit to other indebtedness of bank, including deposits, but will rank parri passu with other Tier-II instruments and superior to Additional Tier-I instruments. The instrument will not be redeemable before maturity without prior approval of SBP.

Bank AL Habib Limited | TFC VII | Redemption Schedule

Due Date Principle	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate	6M Kibor (Assumed at 10%)	Markup/Profit Payment	Installment Payable	Principal Outstanding
		PKR in mln						*PKR in mln*
Issuance								4,000.00
6 months from issuance	4,000.00	0.80	6 months from issuance	6 Month Kibor +1.00%	10%	220.00	220.80	3,999.20
12 months from issuance	3,999.20	0.80	12 months from issuance	6 Month Kibor +1.00%	10%	219.96	220.76	3,998.40
18 months from issuance	3,998.40	0.80	18 months from issuance	6 Month Kibor +1.00%	10%	219.91	220.71	3,997.60
24 months from issuance	3,997.60	0.80	24 months from issuance	6 Month Kibor +1.00%	10%	219.87	220.67	3,996.80
30 months from issuance	3,996.80	0.80	30 months from issuance	6 Month Kibor +1.00%	10%	219.82	220.62	3,996.00
36 months from issuance	3,996.00	0.80	36 months from issuance	6 Month Kibor +1.00%	10%	219.78	220.58	3,995.20
42 months from issuance	3,995.20	0.80	42 months from issuance	6 Month Kibor +1.00%	10%	219.74	220.54	3,994.40
48 months from issuance	3,994.40	0.80	48 months from issuance	6 Month Kibor +1.00%	10%	219.69	220.49	3,993.60
54 months from issuance	3,993.60	0.80	54 months from issuance	6 Month Kibor +1.00%	10%	219.65	220.45	3,992.80
60 months from issuance	3,992.80	0.80	60 months from issuance	6 Month Kibor +1.00%	10%	219.60	220.40	3,992.00
66 months from issuance	3,992.00	0.80	66 months from issuance	6 Month Kibor +1.00%	10%	219.56	220.36	3,991.20
72 months from issuance	3,991.20	0.80	72 months from issuance	6 Month Kibor +1.00%	10%	219.52	220.32	3,990.40
78 months from issuance	3,990.40	0.80	78 months from issuance	6 Month Kibor +1.00%	10%	219.47	220.27	3,989.60
84 months from issuance	3,989.60	0.80	84 months from issuance	6 Month Kibor +1.00%	10%	219.43	220.23	3,988.80
90 months from issuance	3,988.80	0.80	90 months from issuance	6 Month Kibor +1.00%	10%	219.38	220.18	3,988.00
96 months from issuance	3,988.00	0.80	96 months from issuance	6 Month Kibor +1.00%	10%	219.34	220.14	3,987.20
102 months from issuance	3,987.20	0.80	102 months from issuance	6 Month Kibor +1.00%	10%	219.30	220.10	3,986.40
108 months from issuance	3,986.40	0.80	108 months from issuance	6 Month Kibor +1.00%	10%	219.25	220.05	3,985.60
114 months from issuance	3,985.60	1,992.80	114 months from issuance	6 Month Kibor +1.00%	10%	219.21	2,212.01	1,992.80
120 months from issuance	1,992.80	1,992.80	120 months from issuance	6 Month Kibor +1.00%	10%	109.60	2,102.40	-
		4,000.00				**4,282.08**	**8,282.08**	