The Pakistan Credit Rating Agency Limited

Rating Report

Bank AL Habib Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2021	AAA	A1+	Stable	Upgrade	-
29-Jun-2020	AA+	A1+	Stable	Maintain	-
28-Dec-2019	AA+	A1+	Stable	Maintain	-
28-Jun-2019	AA+	A1+	Stable	Maintain	-
31-Dec-2018	AA+	A1+	Stable	Maintain	-
28-Jun-2018	AA+	A1+	Stable	Maintain	-
30-Dec-2017	AA+	A1+	Stable	Maintain	-
22-Jun-2017	AA+	A1+	Stable	Maintain	-
24-Jun-2016	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Bank AL Habib has been portraying a history of stable and consistent growth for more than quarter of a century. The Bank achieved over 5% of system share of customer deposits back in 2015. Ever since that period, an added impetus to growth trajectory was noted. The hallmark of this growth progression has been prudence. The Bank weathered cyclical volatilities unfolding in the economy. The Bank's superior standing was witnessed in the global financial crisis almost a decade ago. The trend continued to this day. This was reflected in the sound asset quality of the Bank, compared to many medium and large institutions taking a significant hit on their advances book. The rating reflects the Bank's improved 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 further augmenting its market share in terms of customer deposit base. The Bank's customer deposits posted a growth of 22%, higher than the sector's growth, to cross one trillion mark (CY20: PKR 1,083bln: CY19: PKR 890bln). The strength of the Bank is reflected in the high proportion of retail deposits in the total. Hence, concentration is low along with reduced risk. The Bank continued with its strategy for outreach expansion - adding significant branches every year. Cost to total income declined during the year. Exceptional asset quality - lowest in industry, maintained for last many years is reflective of the Bank's strength. Strong net mark up income was further augmented by enhanced non-mark up income. Trade finance is the Bank's hallmark. 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's CAR improved to 15.1% as at end Dec-20, providing the Bank with a healthy cushion to expand its advances book. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerned bodies have mitigated the potential damages anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as variants of the pandemic continue to re-emerge.

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. The Bank is enhancing its footprints in the broad financial spectrum, which is essential to meet customers' needs. Digital transformation is very important. BAHL is also into acquirer business.

Disclosure

Name of Rated Entity	Bank AL Habib Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Commercial Bank(Jun-20)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Bank AL Habib Limited (BAHL), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1992. The Bank is quoted on Pakistan Stock Exchange under the category of commercial banks.

Background The Bank's registered office is located in the city of Multan in Punjab and its principal office is located in Karachi.

Operations The Bank's principal activities are to provide commercial banking services to individuals and institutional clients. The Bank has existing branch network of 850 (CY19: 755) branches /sub-branches, including 106 (CY19: 83) Islamic banking branches at end-Dec20.

Ownership

Ownership Structure Habib family and friends, associates and group companies own majority stake (50.2%) in BAHL. Other major shareholders include State Life Insurance Corporation (6.6%) and National Investment Trust (5.0%).

Stability Ownership structure of the Bank is seen as stable as majority stake rests with the sponsors.

Business Acumen Sponsors are member of the Habib Family - one of the oldest and most distinguished names in Pakistan's banking sector. Their significant experience and business acumen in commercial banking has been of value, as their background has allowed them to proactively deal with the changing dynamics of the industry and demonstrate consistent performance.

Financial Strength BAHL is the flagship business of sponsors, willingness to support the Bank in case the need arises is considered high; also supplemented by access to the capital markets.

Governance

Board Structure BAHL's ten-member BoD includes three representatives of Habib family. Three members are independent directors while one is executive director. In addition, the CEO is deemed to be a director.

Members' Profile The board members have extensive experience in the banking and commercial industries of Pakistan and are actively involved in providing strategic input and guidance to the management. CEO is a seasoned professional banker, who has been with the Bank for over 25 years.

Board Effectiveness There are six board committees which assist the board in effective oversight of the Bank's overall operations on relevant matters. The BoD provides overall guidelines on managing risks associated with the Bank's operations and strategic direction.

Financial Transparency The auditors of the Bank, EY Ford Rhodes, Chartered Accountants, have expressed an unqualified opinion on the Bank's financial statements for the year ended December 31, 2020.

Management

Organizational Structure The Bank has well-developed management tiers and succession plans for key management positions and a horizontal organizational structure, wherein the company's operations are grouped under various Division Heads.

Management Team The strength of the Bank comes from the core team of experienced senior banking professionals, having significant experience in banking, locally and abroad.

Effectiveness The Bank has five internal committees in place at the management level to oversee its day-to-day operational matters and take decisions to implement the strategy outlined by the board. These committees operate under the close supervision of the CEO/Executive Director.

MIS The Bank is using in-house developed software named 'AL Habib Banking System -AHBS' as its core banking software that allows real-time on-line connectivity with other subsystems operating in the Bank. The Bank also has a separate Information Security Department.

Risk Management Framework BAHL has a robust risk management framework to manage various risks to which the Bank is exposed. The overall responsibility of risk management lies with the BoD, through various committees of the board. The Bank has in place a separate Risk Management Division (RMD).

Business Risk

Industry Dynamics The indicators of the banking sector reflected mixed trend while economy is recovering from the effects of COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to COVID-19 outbreak, the banking sector managed to grow at a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln), particularly in government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid COVID-19 pandemic outbreak. The policy measures rolled out by the SBP enabled the sector to enhance profitability, improve resilience and limit the credit risk. With the completion of deferment period, the aftermath will be comprehended by the industry, going forward.

Relative Position BAHL, a large sized bank, holds a good position in the industry; 6.4% (end-Dec19: 6.1%) market share in terms of customer deposits. Customer deposit base stands at PKR 1,083bln as at end-Dec20 (end-Dec19: PKR 890bln).

Revenues During CY20, BAHL's NIMR witnessed a considerable increase of 40% on YOY basis to stand at PKR 57.6bln (CY19: PKR 41.2bln) primarily attributable to increased mark-up earned amounting to PKR 125.3bln (CY19: PKR 105.6bln) up by 18.7% YOY due to higher investments in government securities. The Bank's asset yield remained largely unchanged at 10.5% (end-Dec19: 10.6%). However, cost of funds decreased to 5.5% (CY19: 6.2%). Consequently, the Bank's spread increased (CY20: 5.0%; CY19: 4.4%). During 1QCY21, NIMR increased by 16.0% YOY while spread decreased and stood at 4%.

Performance During CY20, non-markup income recorded growth of 8% YOY (CY20: PKR 10.3bln; CY19: PKR 9.5bln). Non-markup expense also grew by 23% YOY standing at PKR 34.8bln (CY19: PKR 28.3bln) mainly due to ~26% increase in total compensation expenses (CY20: PKR 15.4bln; CY19: PKR 12.2bln). Bottom-line (PAT) increased significantly by 59% YOY and amounted to PKR 17.8bln (CY19: PKR 11.2bln) due to increased NIMR of PKR 57.6bln (CY19: PKR 41.2bln). During 1QCY21, PAT grew by 61% to stand at PKR 4.6bln YOY.

Sustainability During CY20, deposits have grown by 22% to stand at PKR 1,100bln and gross advances have grown by 5% to stand at PKR 523bln. The Bank's gross Advances to Deposits ratio (ADR) decreased and was reported at 46.4% at the year-end 2020 (CY19: 54.1%). Going forward, BAHL envisages fortifying its market positioning; meanwhile, the focus is on enhancing its profitability via mobilization of low-cost deposits, expansion in branch network and achieving greater operational efficiency by keeping expenses under control and improving IT infrastructure. At the same time, selective diversification and monitoring of credit exposures would continue to remain an area of focus.

Financial Risk

Credit Risk During CY20, BAHL's net advances have grown by 4% YOY to stand at PKR 510bln (end-Dec19: PKR 489bln). However, ADR decreased and was reported at 46.4% at the year-end 2020 (CY19: 54.1%). Infection ratio is healthy as compared to other banks in the peer universe and stands at 1.4% (end-Dec19: 1.5%), representing high asset quality. During 1QCY21, asset quality further improved as depicted by infection ration of 1.2% at end-Mar21.

Market Risk During CY20, the investment portfolio of the Bank has grown by 31% to stand at PKR 765bln, including debt instrument, (end-Dec19: PKR 586bln). Government securities constitute 98.9% of total investments (CY19: ~98.7%). BAHL's exposure in T-bills has decreased heavily and stood at 19% at end-Dec20 (end-Dec19: 51%) and PIBs have increased and stood at 67% at end-Dec20 (end-Dec19: 41%).

Liquidity And Funding The Bank's customer deposits posted a growth of 22% to stand at PKR 1083bln (end-Dec19: PKR 890bln). The Bank's liquidity, in terms of Liquid Assets-to-Deposits and Borrowings ratio improved and stood at 63.8% (CY19: 55.3%). The Bank's leverage ratio stood at 5.2%. CA and SA proportion stood at 50.2% (end-Dec19: 48.7%) and 29.8% (end-Dec19: 29.4%) respectively. At end-Mar21, customer deposits further increased to PKR 1,155bln.

Capitalization At end-Dec20, the Bank reported CAR of 15.1% (CY19: 14.4%), including Tier I capital (11.4%), remaining compliant with the minimum requirement by SBP. During 1QCY21, risk weighted assets increased by ~ 4% and stood at PKR 673bln, resulting in decrease of CAR to stand at 14.1% at end-Mar21.

PKR mln

Bank Al Habib Listed Public Limited	Mar-21 3M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Total Finances - net	544,952	520,886	496,494	485,705
2 Investments	838,382	759,571	580,649	409,610
3 Other Earning Assets	10,111	22,857	19,442	14,243
4 Non-Earning Assets	220,290	224,039	204,430	141,176
5 Non-Performing Finances-net	(5,590)	(5,261)	(2,333)	(2,495)
Total Assets	1,608,146	1,522,091	1,298,682	1,048,239
6 Deposits	1,167,401	1,099,686	903,740	796,901
7 Borrowings	242,268	226,589	243,738	134,034
8 Other Liabilities (Non-Interest Bearing)	120,743	115,960	89,701	67,752
Total Liabilities	1,530,412	1,442,235	1,237,179	998,687
Equity	77,734	79,856	61,503	49,551
B INCOME STATEMENT				
1 Mark Up Earned	25,941	125,273	105,602	60,733
2 Mark Up Expensed	(12,831)	(67,653)	(64,416)	(29,839)
3 Non Mark Up Income	3,170	10,273	9,481	7,268
Total Income	16,280	67,893	50,667	38,161
4 Non-Mark Up Expenses	(9,466)	(34,768)	(28,261)	(23,651)
5 Provisions/Write offs/Reversals	245	(4,543)	(3,395)	(247)
Pre-Tax Profit	7,059	28,581	19,011	14,264
6 Taxes	(2,458)	(10,770)	(7,842)	(5,846)
Profit After Tax	4,601	17,812	11,169	8,418
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.4%	4.1%	3.5%	3.1%
Non-Mark Up Expenses / Total Income	58.1%	51.2%	55.8%	62.0%
ROE	23.4%	25.2%	20.1%	17.6%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	4.8%	5.2%	4.7%	4.7%
Capital Adequacy Ratio	14.1%	15.1%	14.4%	13.4%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	63.9%	63.8%	55.3%	49.7%
(Advances + Net Non-Performing Advances) / Deposits	45.7%	46.4%	54.1%	60.0%
CA Deposits / Deposits	51.6%	50.2%	48.7%	50.3%
SA Deposits / Deposits	29.4%	29.8%	29.4%	29.9%
4 Credit Risk				
Non-Performing Advances / Gross Advances	1.2%	1.4%	1.5%	1.1%
Non-Performing Finances-net / Equity	-7.2%	-6.6%	-3.8%	-5.0%

Credit Rating

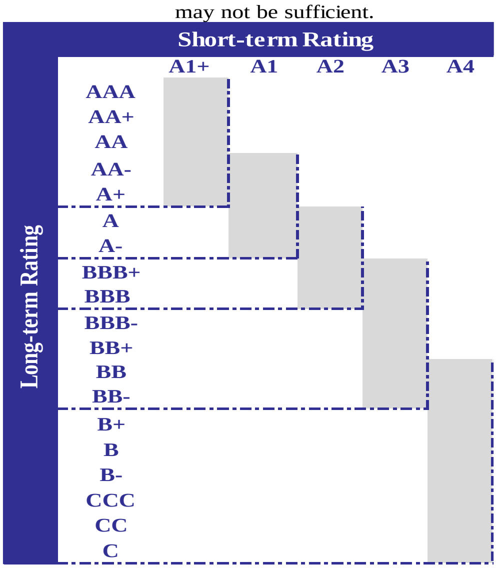
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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

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(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)
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