



The Pakistan Credit Rating Agency Limited

BANK AL HABIB LIMITED (BAHL)

ENTITY & INSTRUMENT RATINGS REPORT

	NEW [JUN-16]	PREVIOUS [JUN-15]
Long-Term	AA+	AA+
Short-Term	A1+	A1+
Privately Placed TFC-IV	AA	AA
Privately Placed TFC-V	AA	AA
Outlook	Stable	Stable

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JUNE 2016

Assets:

- During CY15, the bank’s total earning assets grew by 11%, primarily due to increase in Advances. The Advances increased by PKR 25bln – funded by deposits.
- During CY15, BAHL’s finances portfolio, representing 33% (CY14: 31%) of total assets, experienced growth (CY15: 15%, CY14: 8%), wherein the growth was predominantly driven by lending to the public sector, whose share increased to 24% in total advances (CY14: 18%).
- Owing to bank’s conservative lending approach, its ADR declined to 40% (CY14: 41%) mainly due to impressive increase in deposits by 16% as compared to 14% increase in net advances.

Funding

- The main source of BAHL’s funding is its deposit base comprising 86% of total liabilities at end-Dec15, followed by borrowings (10%). The bank’s deposit base posted a growth of 16%, outpacing industry growth of 13% thus improving the bank’s system share to 5.2% in CY15 (CY14: 5.1%).

Credit Risk

- The advances portfolio is dominated by corporate/commercial sector (71%), followed by consumer & staff loans (4%), and SME (4%).
- Owing to bank’s prudent approach towards provisioning its coverage ratio stands at 143% and the infection ratio stands at 2.7%. The ratio is lowest amongst peers.

Market Risk

- The investment book is dominated by government securities (96%) – T bills 39% and PIBs 54%. The bank’s IDR for CY15 stood at 70% (CY14: 75%).

Performance

- The bank’s asset yield largely remained at the same level on a YoY basis (CY15: 9.2%, CY14: 9.5%) due to sizeable composition of high yielding PIBs in the overall earning assets.
- The bank’s other operating income also surged by 18% due to higher contribution from income from dealing in foreign currency and fee, commission, and brokerage and gain on sale of investment.
- In spite of increase in the provisioning expense, healthy growth of 37% in bank’s pre-provision operating profits translated into 17% higher bottom-line on a YoY basis.

Capital

- BAHL’s paid-up capital stands at PKR 11,114mln, thus safely meeting the MCR of PKR 10,000mln for end-Dec15.
- The bank’s CAR (CY15: 13.8%, CY14: 14.9%) has 10.7% contribution from Tier I capital and 3.1% contribution from Tier II capital.
- Bank’s performance in terms of ROE (25%) 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 94 new branches/sub branches during CY15 and 1QCY16 (1QCY15: 51), bringing its network to 553 branches / sub-branches, including 31 Islamic branches, at end-Mar16 (end-Dec14: 459).

Governance and management

- BAHL’s ten-member BoD includes four representatives of Habib family and three independent members.
- Mr. Abbas D. Habib, the bank’s CEO, has over four decades of experience in domestic and international markets.
- He is backed by a team of experienced professionals, most of whom have long association with the bank.

RATING RATIONALE

The ratings reflect BAHL's strong performance, exceptional asset quality and healthy financial profile emanating from a strong equity base. The bank's business strategy derives strength from its strong positioning in niche market - trade finance. The ratings draw comfort from the bank's experienced management team, prudent risk management policies and deep rooted relationship with its clients - borrowers as well as depositors. The ratings incorporate the bank's ability to capitalize on its branch network, expansion of deposit base via product innovation and diversification of advances portfolio by establishing relations with business entities in various sectors. Notably, the bank's deposits emanate from a wide client base, with a major proportion from individuals.

KEY RATING DRIVERS

Pakistan's banking landscape - particularly for established banks like BAHL - is experiencing high competition and requires continued dynamism to retain the existing market position. Meanwhile, a meaningful representation in the bigger financial services spectrum, along with effective execution of the management's initiative to further strengthen its operational infrastructure and market positioning is important.

DEBT INSTRUMENT

At end-Mar16, BAHL has two unlisted TFCs of PKR 3,000mln and PKR 4,000mln, TFC IV was issued in Jun-11 at 15% p.a. (Yr 1-5) and 15.5% p.a. (Yr 6-10) for a tenor of 10yrs, callable in Jun-16 with prior approval from SBP, whilst 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 with prior approval of SBP. The issue carries lock-in and loss absorbency clause, as per Basel III capital regulation. Although regulatory benchmark for CAR is increasing, given the bank’s past performance, future projections and dividend payout pattern, cushion to lock-in and loss absorbency clause is expected to remain comfortable.



The Pakistan Credit Rating Agency Limited

BANK AL HABIB LIMITED (BAHL)

	<i>PKR mln</i>			
	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
BALANCE SHEET				
Earning Assets				
Advances (Net of NPL)	212,747	208,398	182,948	169,963
Debt Instruments	3,799	3,948	6,065	6,011
Total Finances	216,546	212,346	189,013	175,974
Investments	441,031	350,876	325,358	233,742
Others	4,332	12,496	7,026	5,237
	661,909	575,718	521,397	414,953
Non Earning Assets				
Non-Earning Cash	40,191	35,086	31,521	29,625
Deferred Tax	-	-	-	-
Net Non-Performing Finances	(2,526)	(2,539)	(1,591)	(2,383)
Fixed Assets & Others	26,920	31,449	27,593	18,532
	64,585	63,995	57,522	45,774
TOTAL ASSETS	726,495	639,712	578,919	460,727
Interest Bearing Liabilities				
Deposits	529,852	516,213	446,409	386,161
Borrowings	133,091	65,587	82,199	35,966
	662,943	581,800	528,608	422,127
Non Interest Bearing Liabilities				
	26,502	20,056	17,682	13,318
TOTAL LIABILITIES	689,444	601,856	546,290	435,445
EQUITY (including revaluation surplus)	37,050	37,857	32,629	25,283
TOTAL LIABILITIES & EQUITY	726,495	639,712	578,919	460,727
INCOME STATEMENT				
	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
Interest / Mark up Earned	12,185	50,293	44,001	37,256
Interest / Mark up Expensed	(5,936)	(25,476)	(24,937)	(22,994)
Net Interest / Markup revenue	6,249	24,817	19,064	14,261
Other Income	1,217	4,511	3,808	3,908
Total Revenue	7,466	29,328	22,872	18,169
Non-Interest / Non-Mark up Expensed	(4,572)	(14,997)	(12,402)	(10,177)
Pre-provision operating profit	2,894	14,330	10,470	7,993
Provisions	1,208	(1,999)	(553)	(480)
Pre-tax profit	4,102	12,332	9,917	7,513
Taxes	(1,568)	(4,927)	(3,568)	(2,358)
Net Income	2,535	7,405	6,349	5,155
Ratio Analysis				
	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
Performance				
ROE	32.7%	25.0%	25.0%	23.3%
Cost-to-Total Net Revenue	61.2%	51.1%	54.2%	56.0%
Provision Expense / Pre Provision Profit	-41.7%	13.9%	5.3%	6.0%
Capital Adequacy				
Equity/Total Assets	4.2%	5.0%	4.8%	5.0%
Capital Adequacy Ratio as per SBP	14.6%	13.8%	14.9%	14.4%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	67.6%	65.0%	64.9%	62.7%
Advances / Deposits	39.7%	39.9%	40.6%	43.4%
CASA deposits / Total Customer Deposits	78.6%	76.1%	76.0%	77.8%
Intermediation Efficiency				
Asset Yield	7.9%	9.2%	9.5%	9.1%
Cost of Funds	3.8%	4.6%	5.2%	5.5%
Spread	4.1%	4.7%	4.2%	3.6%

STANDARD 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		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.	

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. Rating Watch may carry designation – Positive [rating may be raised], Negative [lowered], or Developing [direction is unclear]. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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’.

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, or/and e) the entity/issuer defaults..

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Regulatory and Supplementary Disclosure

[Rated Entity](#)
Name of Rated Entity

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	Short Term	Outlook	Action
24-Jun-16	AA+	A1+	Stable	Maintain
24-Jun-15	AA+	A1+	Stable	Maintain
26-Jun-14	AA+	A1+	Stable	Maintain
26-Jun-13	AA+	A1+	Stable	Maintain
18-Jun-12	AA+	A1+	Stable	Maintain
14-Jun-11	AA+	A1+	Stable	Maintain

Related Criteria and Research

 Rating Methodology
Sector Research
Bank Rating Methodology
Banking Sector - Viewpoint | Mar-15
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Rating Procedure

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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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[Probability of Default \(PD\)](#)

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