Habib Bank Limited

RATING REPORT

REPORT DATE:
July 18, 2016

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity Rating	AAA	A-1+	AAA	A-1+
TFC	AAA		AAA	
Outlook	Stable		Stable	
Date	*June 30, '16*		*June 30, '15*	

COMPANY INFORMATION

Established in 1941	External auditors: **Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants** (for the year ended Dec 31, 2015) **A. F. Ferguson & Co. Chartered Accountants** (appointed in AGM dated March 29, 2016 for a period of 5 years)
Public Limited Company	Chairman of the Board: **Mr. Sultan Ali Allana**
Key Shareholders (with stake 5% or more):	President & CEO: **Mr. Nauman K. Dar**
Aga Khan Fund for Economic Development – 51.00%	
CDC Group PLC– 5.00%	

APPLICABLE METHODOLOGY(IES)

PRIMER - Commercial Banks (December 2001): http://jcrvis.com.pk/images/primercb.pdf
Rating the Issue (September 2014): http://www.jcrvis.com.pk/Images/criteria_instrument.pdf

Habib Bank Limited

OVERVIEW OF THE INSTITUTION

HBL was privatized in 2004. Aga Khan Fund for Economic Development is the parent company of the bank. At end-2015, branch network of HBL included 1,663 local branches and 53 overseas branches. Financial statements of HBL for 2015 were audited by Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants.

RATING RATIONALE

Habib Bank Limited (HBL) is the largest private sector bank in Pakistan with a market share of 14.1% (2014: 14.8%) in domestic deposits at end-2015. The bank also has sizeable presence in the overseas market which represented around 14% of the total assets of the bank. HBL also plans to establish a branch in China by end-2016, license of which has been acquired in order to benefit from China Pakistan Economic Corridor (CPEC) agreement. During 2015, growth achieved also included acquisition of Barclays Pakistan business, while the bank has also acquired a controlling stake in First-MicroFinance Bank Limited (FMFB) during the ongoing year. In order to further diversify revenue streams, branchless banking and technology innovation remain a key area of focus. In this regard, HBL is establishing an Innovation and Research Lab for evaluating different digital and branchless banking options. Mobile banking services application was launched during 2016. Furthermore, in line with its objective of 'financial inclusion', HBL plans to enhance its customer base by bringing non-banking customers under the banking umbrella.

Advances: Asset deployment strategy of the bank has remained conservative with over half of the asset base representing exposure to the sovereign/public sector entities. Advances portfolio witnessed sizeable increase on a timeline basis with growth manifested in both local and overseas advances. Corporate lending remains forte of the bank, while the bank increased its exposure in agriculture and consumer segments on a timeline basis. Increase in breadth of lending operations is viewed positively from a risk perspective. Moreover, Islamic banking operations have also gained traction in this rapidly growing market segment in the outgoing year. Overseas portfolio represented approximately one-fifth of the total portfolio with UAE being the largest overseas market. Reported gross and net infection levels have improved in the domestic portfolio at end-FY15 vis-à-vis preceding year, while the asset quality indicators worsened in case of overseas portfolio on account of lower oil prices.

Investments: In line with the trend observed in overall banking sector, funds generated through higher deposit base and borrowings were primarily directed towards investment in government securities, particularly Pakistan Investment Bonds (PIBs) in anticipation of decrease in interest rates. However, HBL maintained one of the lowest proportions of PIBs to total deposits in comparison to its peers at end-2015. Resultantly, the bank is exposed to lower market risk vis-à-vis peers but would need to effectively manage reinvestment risk.

Liquidity profile: Liquidity profile of the bank is considered sound as illustrated by cost effective and granular deposit base coupled with presence of significant liquid assets on the balance sheet. The same have also depicted improvement on a timeline basis. Share of non-remunerative deposits in overall deposit base increased in the outgoing year. Despite growth in overall deposit base, market share of HBL marginally decreased as a result of management's deliberate strategy to reduce high cost term deposits in 2015. In 2016, the bank launched 'HBL Nisa' in order to facilitate women banking and it resulted in addition of 5,314 accounts at end-1Q16. Focus on new-to-bank and current accounts will continue to drive deposit strategy, going forward.

Capitalization: Capitalization indicators of the bank have witnessed improvement on a timeline basis. Equity base of HBL increased to Rs. 171.9b (2014: Rs. 157.9b) on the back of internal profit generation and increase in Tier-I equity. Overall Capital Adequacy Ratio (CAR) also stood higher at 15.9% (2014: 15.1%). At this level, the cushion available in CAR is commensurate with the assigned ratings.

Profitability: While decreasing interest rates reduced spreads, core earnings and profit before tax of the bank increased on the back of volumetric growth in markup bearing assets, lower cost of deposits, higher fee and commission income and sizeable realized capital gains incurred on sale of securities. At end-1Q16, profitability was lower in comparison to 1Q15 due to reduction in realized capital gains. Going forward, replicating non-markup income generated from capital gains will remain a challenge for the management. However, management is pursuing a strategy of increasing low cost deposits coupled with volumetric growth in high-yielding earning assets in order to compensate for lower capital gains.

Habib Bank Limited **Appendix II**

FINANCIAL SUMMARY

(amounts in PKR billions)

BALANCE SHEET	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Total Investments	1,210.5	897.6	795.0
Advances	601.6	555.4	523.9
Total Assets	2,124.9	1,769.2	1,612.7
Borrowings	314.5	99.6	105.3
Deposits & other accounts	1,558.3	1,447.2	1,317.0
Subordinated Loans	10.0	-	-
Tier-1 Equity	125.6	117.4	98.5
Net Worth	171.9	157.9	129.3
INCOME STATEMENT	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Net Mark-up Income	76.8	67.2	53.8
Net Provisioning	4.3	0.5	1.0
Non-Markup Income	32.3	19.6	14.7
Operating Expenses	45.7	38.3	33.2
Profit Before Tax	57.4	46.9	33.7
Profit After Tax	35.5	31.1	21.9
RATIO ANALYSIS	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Market Share (Advances) (%)	13.6%	13.6%	14.4%
Market Share (Deposits) (%)	14.1%	14.8%	15.6%
Gross Infection (%)	10.4%	11.1%	11.9%
Provisioning Coverage (%)	92.3%	88.7%	88.7%
Net Infection (%)	1.4%	1.8%	1.8 %
Cost of deposits (%)	3.2%	4.4%	4.7%
Net NPLs to Tier-1 Capital including general provisioning (%)	6.4%	8.4%	9.6%
Capital Adequacy Ratio (C.A.R (%))	15.9%	15.1%	14.3%
Markup Spreads (%)	3.8%	4.0%	3.9%
Efficiency (%)	46.9%	45.4%	51.0%
Basic ROAA (%)	2.7%	2.8%	2.0%
ROAA (%)	1.8%	1.8%	1.4%
ROAE (%)	24.9%	24.4%	19.2%
Liquid Assets to Deposits & Borrowings (%)	70.8%	68.3%	68.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix III

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix IV

Name of Rated Entity	Habib Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity & TFC Rating
Rating History	see tables below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-Jun-16	AAA	A-1+	Stable	Reaffirmed
30-Jun-15	AAA	A-1+	Stable	Reaffirmed
30-Jun-14	AAA	A-1+	Stable	Reaffirmed
28-Jun-13	AAA	A-1+	Stable	Reaffirmed
26-Jun-12	AAA	A-1+	Stable	Upgrade
29-Jun-12	AA+	A-1+	Stable	Reaffirmed
13-Jun-11	AA+	A-1+	Stable	Reaffirmed
29-Jun-10	AA+	A-1+	Stable	Reaffirmed

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: TFC-1			
30-Jun-16	AAA	Stable	Reaffirmed
17-Dec-15	AAA	Stable	Final
30-Jun-15	AAA	Stable	Preliminary

Instrument Structure	Unsecured subordinated TFCs amounting to Rs. 10b. (inclusive of Green Shoe option of Rs. 2.5b). The TFC has a tenor of 10 years.
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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