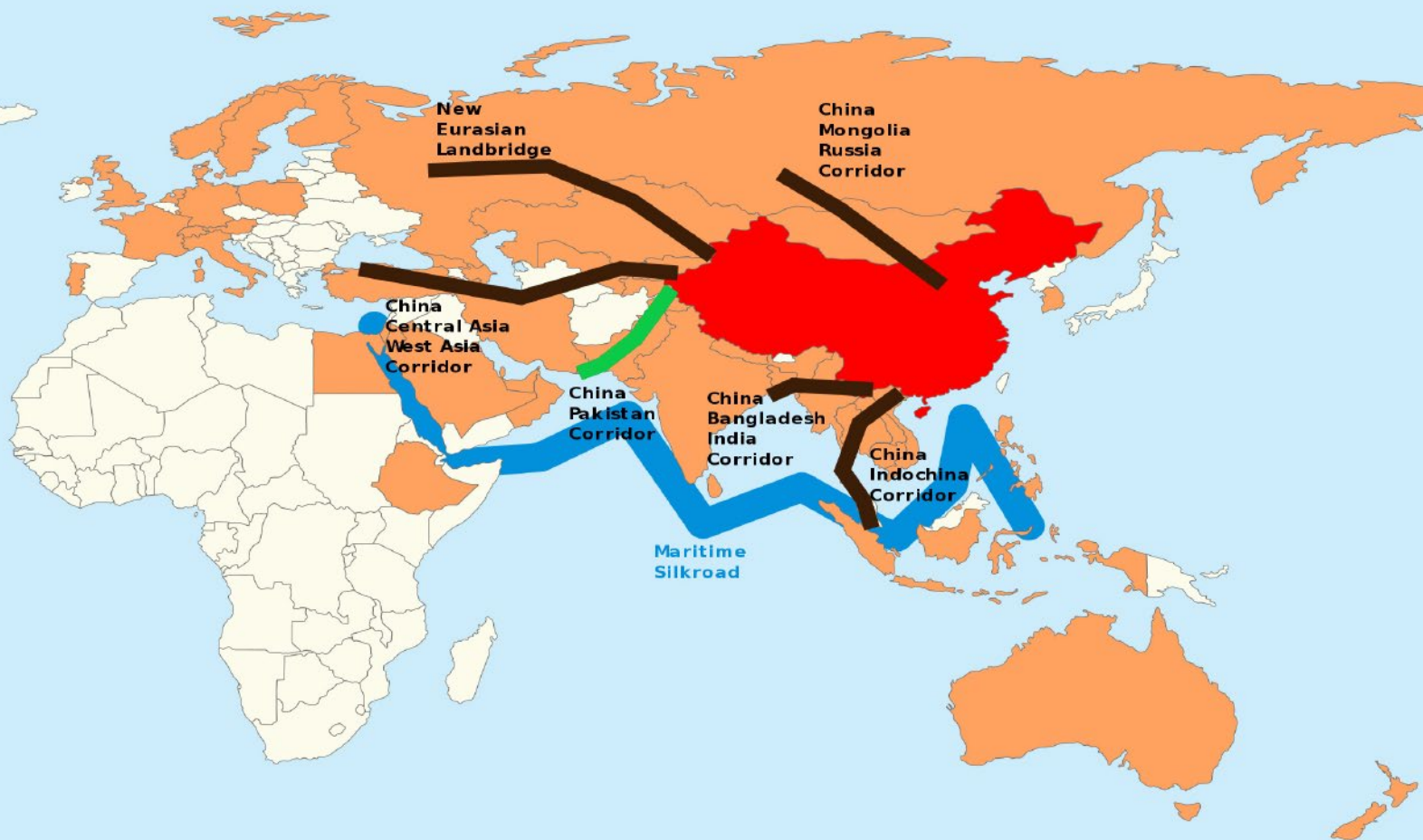




ISG-ES GRADING REPORT



HABIB BANK LIMITED

VIS



INTERNATIONAL GROUP OF RATING AGENCIES
RAEX EXPERT RA
EUROPE

A joint product by

- VIS Credit Rating Company Limited;
- China Chengxin International Credit Rating Company Limited;
- Islamic International Rating Agency;
- Rating-Agentur Expert RA GmbH

Report Date: January 15, 2020
Analyst(s): Mr. Aarsal Ayub, CFA (VIS)

Company Status: Listed on Pakistan Stock Exchange
External Auditors: M/s M/s A.F. Ferguson & Co.

Major Shareholders (>5%):

Aga Khan Foundation for Economic Development — 51.00%
Chairman: Mr. Sultan Ali Allana
CEO: Mr. Muhammad Aurangzeb

Branches: 1,743 (Dec. 2018)

Head Office: Karachi

Credit Ratings: AAA/A-1+ by VIS (Reaffirmed on June 28, 2019)
Pakistan Country Risk Scoring: Country Risk Report Along the Belt And Road, Published 2018 — CCXI, VIS & RAEX.

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INTERNATIONAL INDUSTRIES LIMITED

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ISG-ES GRADING

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GRADING RATIONALE

INVESTMENT STRENGTH (IS)

Investment Strength	Very Strong	Strong	Good	Medium	Low
Business/ Economic Risk	Very Low	Low	Moderate	Medium	High
Industry Risk	Very Low	Low	Moderate	Medium	High
Corporate Positioning	Very Strong	Strong	Sound	Adequate	Weak
Financial Performance	Very Strong	Strong	Sound	Adequate	Weak

- HBL's IS Grading has been assessed as Strong. The Grading is supported by HBL's strong corporate positioning in the domestic market, and general low risk dynamics of the banking industry. The ratings are constrained by the moderately high business/ economic risk profile of Pakistan. Despite depressed profitability in the past of couple of years, HBL's financial performance has been assessed as 'Strong', taking into account adequately high capitalization, sound liquidity and asset quality metrics and positive outlook on profitability.

CORPORATE GOVERNANCE (CG)

Corporate Governance	Very Strong	Strong	Sound	Adequate	Weak
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- HBL's CG Grading has been assessed as Strong. The Grading takes into account a well-defined regulatory framework for governance, and HBL's Board & Board Committee compositions, which are aligned with domestic regulations. Recently, the Bank has undertaken significant spending in reinforcing its control infrastructure, while adding quality internationally experienced resources at the senior management level, which is viewed positively.

ENVIRONMENTAL ACCOUNTABILITY (EA)

Environmental Accountability	Very High	High	Good	Medium	Low
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- HBL's EA Grading has been assessed as 'Strong', which takes into account general operational dynamics of a banking institution, which compares favorably to manufacturing concerns. The EA Grading also incorporates EA-related regulatory guidance from SBP and HBL's incorporation of the same as part of internal policy.
- So far, HBL has done well in undertaking Environment Impact Analysis, Environmental Due Diligence of its portfolio and launching renewable energy financing products for green business facilitation. However room for improvement is there in the area of Own Impact Reduction.

SOCIAL RESPONSIBILITY (SR)

Social Responsibility	Very Strong	Strong	Sound	Adequate	Weak
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- HBL's Social Responsibility has been gauged as 'Strong', which mainly takes into account HBL's defined policy framework on gender balancing at the institution (employee) level and customer level, with pre-defined targets. The remuneration and rewards packages (such as maternity leaves) compare favorably to domestic market norms.
- HBL has a very strong focus on human capital development, with training costs exceeding all peers. In addition, HBL has a pre-deefined policy on charitable donations, wherein 1% of profitability is passed onto the HBL Foundation.

CORPORATE PROFILE

Given an asset base of roughly USD 20bn and expected topline revenue of USD 1.7bn for 2019, Habib Bank Limited ('HBL' or 'the Bank') can be classified as a large-sized institution in the domestic context.

Founded in 1941, HBL was the first commercial bank in Pakistan. The Bank was initially nationalized in 1974, being later privatized in 2003. As part of the privatization exercise, the controlling shareholding in HBL was acquired by Aga Khan Fund for Economic Development (AKFED).

Presently, HBL's branch network spans over 15 countries, including Pakistan. In Pakistan, the Bank operates 1,697 branches (2017: 1,703) – including 47 (2017: 47) Islamic banking branches – in addition to 46 overseas branches (2017: 48), including KEPZ.

The overseas asset base constitutes about 12% of the Bank's asset base. The proportion has certainly reduced from around 20% in 2014, mainly as a result of surrendering US operations in 2017. In the 2-year period 2017–18, the Bank's overseas operations remained in losses (2018: Rs. 12.6bn; 2017: Rs. 1.9bn). HBL's future strategy is to focus on growth in domestic operations, while consolidating overseas operations to regions with greater potential, like the ones having significant Pakistani diaspora or the ones representing trade opportunities with Pakistan. In this regard, operations in Kenya have been merged with a local Kenyan bank, while operations in Seychelles and Hong Kong have been closed. Middle East operations are the mainstay for overseas operations, representing about of the assets overseas assets. China is another area for growth in overseas operations, in view of the ongoing CPEC projects. In this regard, HBL has recently opened a new in Urumqi city (Xinjiang province).

HBL's subsidiary operations in Pakistan include an exchange company (HBL Currency Exchange Private Limited), an asset management company (HBL Asset Management Limited), a micro finance bank (First Micro Finance Bank Limited) and a financial services company (Habib Bank Financial Services Private Limited). In addition, associate companies of HBL include the 3rd largest general insurance company (Jubilee General Insurance Company Limited) and the 2nd largest life insurance company (Jubilee Life Insurance Company Limited) in Pakistan, which are owned to the extent of 19.8% and 18.5% respectively.

During the 3-year period (2014–2016), the Bank's return on assets and equity remained range bound and averaged 1.6% and 19.4% respectively, which was in line with the

Table 1: Key Financials

	2017	2018	3Q'19	2019 ^p	2020 ^p	2021 ^p
Investments	1,375	1,390	1,388	1,402	1,539	1,727
Net Advances	852	1,080	1,168	1,172	1,228	1,317
Total Assets	2,684	3,026	3,105	3,138	3,415	3,832
Borrowings	34	42	29	32	35	39
Deposits & other accounts	1,999	2,137	2,287	2,288	2,498	2,836
Subordinated Loans	10	10	22	22	22	22
Tier-1 Equity	164	181	190	192	207	221
Net Worth	185	195	209	215	235	263
Net Spread Earned	82	82	74	102	121	124
Net Provisioning / (Reversal)	1	0	5	2	2	3
Non-Markup Income	34	20	16	22	27	30
Administrative expenses	62	75	70	94	105	115
Profit/ (Loss) Before Tax	29	22	18	29	42	36
Profit / (Loss) After Tax	9	12	9	17	25	24
Market Share - Advances*	11.4%	12.1%	NA	12.5%	12.5%	12.5%
Market Share – Deposits*	14.3%	14.1%	NA	14.1%	14.1%	14.1%
Gross Infection	8.2%	7.0%	7.0%	7.0%	7.0%	7.0%
Provisioning Coverage	88%	85%	83%	85%	85%	85%
Net Infection	1.1%	1.1%	1.3%	1.3%	1.3%	1.3%
Cost of deposits	2.4%	3.0%	4.8%	5.1%	5.3%	4.3%
Gross Advances to Deposits Ratio	46%	54%	54%	54%	54%	54%
Net NPLs to Tier-1 Capital	5.8%	6.8%	7.9%	8.0%	8.0%	8.0%
Capital Adequacy Ratio (CAR)	15.96%	16.18%	15.55	-	-	-
Markup Spreads	4.1%	3.9%	4.6%	4.7%	4.9%	4.4%
Efficiency	58%	74%	76%	74%	71%	75%
ROAA	0.3%	0.5%	0.4%	0.6%	0.8%	0.7%
ROAE	4.6%	6.4%	5.7%	8.3%	11.3%	9.8%

*Domestic market

Table 2: Geographical Breakup of Assets

	Dec'17	Dec'18
Pakistan (incl. KEPZ)	88.8%	87.9%
Middle East	4.7%	6.4%
Asia & Africa	2.4%	2.2%
Europe & North America	4.1%	3.4%

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Figure 1: HBL Profitability Metrics

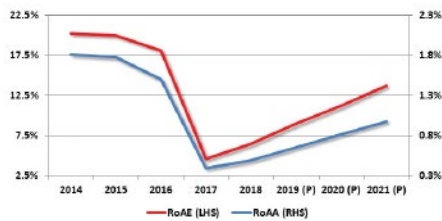


Figure 2: HBL Share Performance



long term profitability trend. However, given penalties imposed by the New York State Department of Financial Services in 2017, HBL's profitability metrics were impacted. The trend of low return continued into 2018, where volatility in exchange rate parity and continuing adverse performance of international operations, negatively impacted profitability.

Given a long term stable dividend yield, with the exception of 2017-18 period HBL is a value proposition. As the EPS fell in 2017, HBL's P/E spiked to 31.7. However, since then EPS has gained momentum and share price has softened. Calculating the P/E ratio on the basis of expected future earnings, assuming share price under Rs. 160, the P/E ratio comes out to be lower than 10, which is lower than Large Banks median. In 2020 we expect profitability metrics to improve in the medium term and become commensurate with similar-sized banks in the industry.

INVESTMENT STRENGTH: **STRONG**

Economic/ Business Risk: **Moderate**

Economic Growth Cycle: Having posted strong economic growth during the five-year period (FY14–18), averaging 5.3%, the country's economy is projected to undergo a slowdown. GDP growth projections for the medium term remain dismal at less than 4%, whilst we do expect normalization towards the long term growth rate of 5% over the longer term horizon.

Fiscal & External Risk: The accommodative monetary & fiscal policies, in place during the past five year period (FY14–18), which had deepened the macroeconomic imbalances have been reversed. In order to avert an external account crisis, Government of Pakistan (GoP) has taken USD 6b Extended Fund Facility from IMF. In line with IMF pre-requisites, the newly elected government has had to undertake necessary structural adjustments, which has somewhat contained the external deficit. Nevertheless, given meager tax revenues, fiscal risk remains high; this is something that GoP plans to address by increasing tax revenues, through broadening the tax base, which is a medium to long term objective. Over the short to medium term, fiscal risk is expected to remain on the higher side, whilst external risk is expected to trend down, albeit the deficit will persist.

Governance: Governance score has improved in the last five years, albeit deficiencies continue to persist in areas of 'Government Effectiveness', 'Regulatory Quality' and 'Rule of Law'. The governance lags scores of regional peers. Pakistan also ranks adversely in the Corruption Perception Index at 117, which is lower than India (78) and Sri Lanka (89) but compares favorably to Bangladesh (149).

Geo-strategic Risk: The complicated relationship with bordering nations, such as India and Afghanistan, heightens the geo-strategic risk for Pakistan; albeit Pakistan has established an all-weather strategic partnership with China, with political & mutual trust and trade cooperation between the two growing on a timeline.

Competitive Environment: Although Pakistan's competitiveness rankings have improved considerably, from 129th position, in 2015, to 107th position in 2018, the country remains the lowest rated among its regional peers i.e. India, Sri Lanka & Bangladesh. Pakistan has shown notable improvement in World Bank's Ease of Doing Business index, with their ranking improving from 136 in 2019 to 108 in 2020.

Human Development: The United Nations Development Program (UNDP) categorizes Pakistan amidst 'Medium' category of its Human Development index. This is in line with regional peers.

Industry Risk: **Low**

Industry: The banking industry in Pakistan constitutes 26 commercial banks, which include 20 private banks and 5 public sector banks. The industry largely follows a branch-based banking model, wherein older banks with larger branch networks continue to hold major proportion of the deposit market. In terms of size-based classification, the industry can be broken up into 5 large-sized banks, 8 medium-sized banks and 12 small-sized banks.

Risk Categorization: As per the sector ranking criterion, the banking industry is classified as a 'Low Risk' industry.

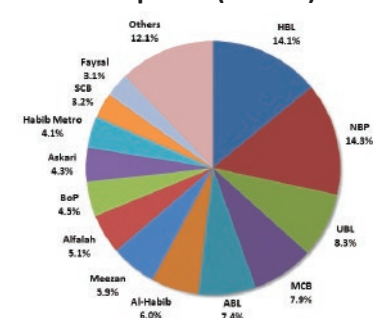
Table 3: Macroeconomic Indicators

	FY17	FY18	FY19	FY20 ^p
GDP Growth	5.2%	5.5%	3.3%	2.4%
Inflation	4.2%	3.9%	7.3%	13.0%
Fiscal Deficit (% of GDP)	5.8%	6.4%	6.8%	7.1%
Current Deficit (% of GDP)	6.3%	4.6%	2.6%	2.0%
Total Debt to GDP	67.0	71.7	74.9	76.9
External Debt (% of GDP)	20.5	24.3	26.5	32.0
Gross Reserves (USD' Billions)	16.1	9.8	6.8	11.2
Gross Reserves (months of imports)	2.9	1.9	1.4	2.2
PKR/USD (year-end)	106.0	124.4	163.5	NA

Table 4: Pakistan Rankings

Global Competitiveness Index	107 of 140 (2018)
Ease of Doing Business	108 of 190 (2020)
Corruption Perception Index	117 of 180

Figure 3: Bank-wise Market Share – Domestic Deposits (Dec'18)



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Table 5: Financial Inclusion – Pakistan vs South Asia (Average)

	Pakistan	South Asia
Account with Financial Institution	18.0%	68.4%
Saving at a Financial Institution	6.1%	17.2%
Borrowed from Financial Institution*	2.6%	7.8%

* includes credit cards

Figure 4: Industry Asset Mix (Sep'19)

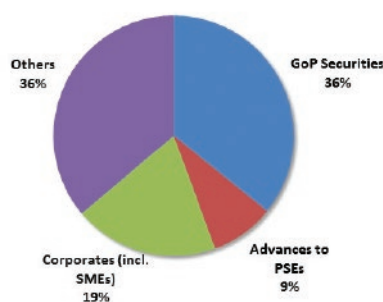


Figure 5: Industry Credit Risk Indicators

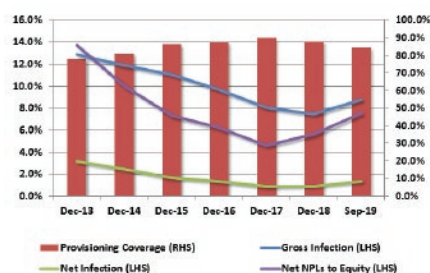


Table 6: Segment-wise breakup of Industry Advances

	% of Portfolio*	Infection		
		Dec'17	Dec'18	Sep'19
Corporate	71%	8.8%	8.1%	9.0%
Commodity	10%	0.8%	0.6%	0.9%
Consumer	7%	6.2%	5.0%	4.8%
SME	5%	16.9%	14.9%	18.0%
Agriculture	4%	12.1%	16.9%	20.9%
Others	4%	7.4%	10.1%	8.7%

*As of Sep'19

Domestic Competition: With 25 banks competing in the industry, there is significant competition in the industry. The largest 5 banks in the industry account for about half (50.8%) of the industry's deposit base. During the past couple of years, the 'Large Banks' segment has gained 1.9% in terms of market share; almost similar level of market share improvement has been observed in case of Medium Banks (+1.6%), while Small Banks have collectively lost market share (-3.5%).

Barriers to Entry: The barriers to entry into the banking industry are gauged to be high on account of the following:

- **Operational Complexity:** The highly regulated nature of industry coupled with the operational complexity of running a banking institution requires every new entrant to have some level of operational expertise / knowledge of operating a bank. The banking regulator also imposes stringent requirements on new entrants, including strict 'fit & proper' criteria for major shareholders.
- **Initial Outlay:** The minimum capital outlay for starting a banking institution is set at Rs. 10bn. In addition, there are additional Capital Adequacy Ratio (CAR) requirements that need to be complied with, at all times, and which are envisaged to grow over the next few years in line with BASEL 3 Guidelines.

Industry Overview: Some salient features of the industry are as follows:

- **Deposits Growth:** The banking industry deposits have grown at a CAGR of 10.7% during the past 5½ year period (Dec'13-Sep'19). Growth rate remained in double digits till 2017, subsequent to which growth in deposits fell to 9.5% in 2018, and has remained relatively dismal at 4.8% during 9M'2019. The slowdown can be attributed to the GoP-led tax documentation drive and macroeconomic slowdown. Our long-term growth outlook on deposits is positive; this takes into account the low level of financial inclusion in the country, as depicted in table 5, which is indicative of significant room for growth.
- **Credit Off take:** The industry's credit operations are characterized by sizable exposure to the sovereign, which has largely crowded out the private sector. As a result, credit to private sector, at 19% of GDP, remains lower than regional peers. Furthermore, the private sector credit remains saturated with a select corporate clientele, with credit to SMEs being limited to less than one-tenth of the private sector credit portfolio.
- **Credit Risk:** Given the slowdown in economic growth, the ongoing rigorous tax documentation drive, tax refund issues being faced by several corporates in the industry and rising finance costs, the implied credit risk is considered heightened. Actual materialization of the same in non-performance has remained measured so far. In absolute terms, NPLs, which remained relatively stationary during the period 2014-2017, grew by 15% in 2018 and 12% in 9M'19. The most notable uptick infection has been noted in the agriculture segment. In absolute terms, the uptick in NPLs is driven by the largest segment i.e. Corporate, albeit given portfolio growth, infection stands marginally higher than Dec'17 level. In terms of sector exposures, the textile sector represents the most pertinent risk, given high industry level impairment of 16.7%, while infection in the single largest sector i.e. production/transmission of energy, is considered to be adequately low. Going forward, even though we do expect measured uptick in NPLs, the portfolio impairment is expected to remain range bound. Our expectations are based on the portfolio composition of the industry, wherein corporate financing remains the mainstay.

- **Liquidity:** Given sizable exposure to sovereign securities, the liquidity profile of the sector is considered sound, as evident from the high ratio of liquid assets to total assets. Since 2015, the industry's, relatively stable, ADR started increasing and peaked at 55% in Dec'18. Consequently, the ratio of liquid assets to total assets has slightly dropped. Going forward, given regulatory cap on government borrowing from central bank, the reliance on banking sector is expected to increase, which will pull down the ADR while enhancing liquidity.
- **Capitalization:** The Pakistani banking sector has healthy capital buffers in place, as evident from CAR & Tier-1 CAR of 16.7% and 13.8% respectively, as of Sep'19. Presently, the minimum CAR & Tier I CAR requirement is set at 12.5% and 10% respectively, while 3 largest banks, which are classified as Systemically Important Banks (SIB), are required to keep a buffer of 1.5-2%. The implementation of IFRS 9 in the industry has been delayed till Jan'21. Going forward, given the increasing profitability and conservative lending strategy expected to be pursued by most banks, capitalization indicators for 'Large Banks' and 'Medium Banks' are expected to remain sound, while select 'Small Banks' depict higher risk of capital buffer depletion.
- **Profitability:** Banking sector profitability after peaking in 2015 continued to decline for the third consecutive year in 2018, owing to pressure on spreads (maturity of PIBs), one-off expenses & settlement payments and regulatory actions (transaction tax on deposits, super tax and deposit insurance). Going forward, we expect profitability to improve considerably over the next 18 months as full impact of increase in interest rate on spreads materializes with a lag given faster re-pricing of liabilities vis-à-vis assets. Moreover, aggressive participation is expected in long-tenor bonds in overview of the inflation outlook. Over the medium term, balance sheet growth along with improvement in spreads, is expected to off-set higher credit cost, and translate into healthy growth in profitability. Extent of improvement in profitability will depend on timing and quantum of discount rate reversal and impact of implementation of IFRS-9 (expected implementation in 2020). Other key risks to profitability may emerge from implementation of Treasury Single Account (TSA) which may result in liquidity and profitability challenges for banks. The impact may be significant for select public sector and provincial government owned banks. Impact for large private sector banks is expected to be manageable given that public sector deposits represent a smaller proportion of overall deposits and cost of funds for government is significantly higher vis-à-vis Bank's average cost of funds.

Table 9: Industry Profitability Indicators

	2017	2018	9M'19
RoA (before tax)	1.6%	1.4%	1.5%
RoA (after tax)	0.9%	0.8%	0.9%
RoE (before tax)	20.4%	18.5%	21.8%
RoE (after tax)	12.0%	11.5%	12.3%
Net Interest Income/Gross Income	72.3%	75.4%	79.6%
Cost to Income Ratio	57.1%	59.4%	56.4%
Trading Income to Gross Income	5.9%	2.0%	-0.4%
Personnel Expenses to Non-Interest Expenses	44.3%	42.7%	41.4%

Corporate Positioning: **Strong**

Market Positioning: HBL is classified as a Systemically Important Bank (SIB) by the State Bank of Pakistan (SBP). HBL's strong market positioning in the domestic market is evident by the following:

Table 7: Segment-wise Breakup of Portfolio & Infection

As of Sep'19	% of Portfolio	Infection
Production/Transmission of Energy	17.0%	3.9%
Textile	12.5%	16.7%
Individuals	8.8%	8.3%
Agribusiness	8.1%	10.4%
Chemical & Pharmaceuticals	3.3%	5.6%
Sugar	2.6%	23.1%
Financial	2.8%	4.5%
Cement	2.1%	2.4%
Automobile/Transportation	2.0%	10.1%
Electronics	1.4%	16.9%
Shoes & Leather garments	0.4%	16.0%
Insurance	0.1%	0.1%
Miscellaneous	39.0%	7.7%

Figure 6: Industry Liquidity Trend

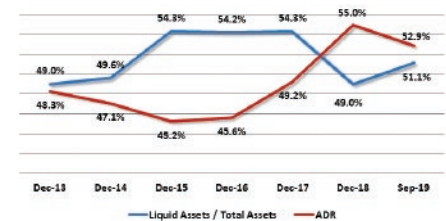


Table 8: Capitalization

	Dec'17	Dec'18	Sep'19
CAR	15.3%	15.9%	16.7%
Tier I CAR	12.5%	13.0%	13.8%
Net NPLs to Capital	4.6%	5.6%	7.5%
Equity Investment to Capital	13.0%	11.6%	10.1%
Leverage	14.1x	14.1x	14.3x

Figure 7: Relationship between Banking Spread & Interest Rate

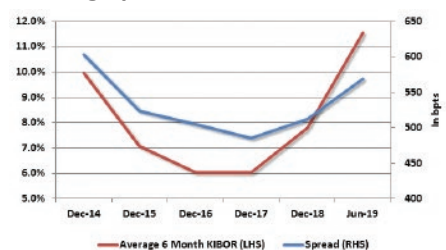


Table 10: Touch Points

	Dec'18
Branches	1,743
ATMs	2,139
Branchless Banking Agents	37,503
PoS terminals	21,024

Table 11: Branchless Banking Market Share

	Market Share
No. of Accounts	3.20%
No. of Active Accounts	3.20%
Total Deposits	1.30%
No. of Transactions	2.10%
Value of Transactions	2.30%
No. of Agents	8.80%

Table 12: Subsidiaries & Associates

	Effective Ownership	Stake (In PKR Billions)
HBL Asset Management (HBL AMC):	100%	0.1
First MicroFinance Bank Limited (FMFB):	50.51%	2.0
HBL Currency Exchange (Private) Limited (HBL CE):	100%	0.4
Jubilee General Insurance Limited:	19.80%	3.1
Jubilee Life Insurance Limited:	18.52%	1.9

- While the large banks have collectively lost market share during 2013-2018, HBL has broadly maintained its market share.
- HBL's strong market positioning is derived from its massive branch outreach, which is beyond any other bank in Pakistan.
- In terms of number of depositors, the bank leads the other similar-sized banks with a margin of 2x.
- On average, the number of 'New to Bank' (NTB) customers added by HBL annually is about twice its nearest competitor.
- In addition to the branch network, HBL has also done well in the area of branchless banking, which is a key initiative of the bank to provide services to the non-banked/under-banking populace of the country. In 2018, HBL rebranded its branchless banking under the 'Konnect' platform. As of Dec'18, HBL had the fifth highest agent network. Since its launch in Jul'18, the Konnect platform has been able to onboard over 1.4mn new customers, with about a quarter of these being done through the app.
- HBL's credit operations stand above & beyond any other bank in the industry. As of Dec'18, HBL's gross advances portfolio was 11% larger than the largest public sector bank and 39% larger than its nearest private sector competitor.

Integration: HBL, and related group companies, are well-integrated in the financial services industry, offering a range of services, while utilizing group company's distribution networks in an optimal way. Associated group companies have presence in a myriad of financial services industry, including life insurance, non-life insurance, asset management, currency exchange etc. A brief overview of related parties is as follows:

- **HBL Asset Management (HBL AMC):** HBL AMC is the 6th largest asset management company in Pakistan with a market share of 8% in 2019. The company offers a range of investment solutions on both conventional and Islamic arenas.
- **First MicroFinance Bank Limited (FMFB):** Incorporated in 2001, FMFB can be categorized as a large-sized microfinance bank. As of Dec'18, FMFB had a market share of 9%, and had the 4th largest operations. FMFB has 203 (2018: 203) business locations, comprising 188 (2018: 184) branches/permanent booths (PBs) and 15 (2018: 19) Pakistan Post Office (PPO) sub offices in operation.
- **HBL Currency Exchange (Private) Limited (HBL CE):** Having commenced operations in 2005, HBL CE deals in Foreign Exchange business that includes different products (Foreign Currency Sale/Purchase, Foreign Exchange to Commercial Banks, FCY Export).
- **Jubilee General Insurance Limited:** Jubilee General Insurance Company Limited (JGI) is the 3rd largest private sector general insurance company in Pakistan with over 60 years of experience in the sector. Market share of the company in terms of gross premium stood at 11.9% for 2018.
- **Jubilee Life Insurance Limited:** Jubilee Life Insurance Company Limited (JLIC) is the largest private sector life insurance company in Pakistan in terms of Gross Premium Written (GPW). Market share of the company stands at 24% for 2018.

Product Diversification: As the industry leader, HBL offers a diversified product suite catering to all types of retail, and institutional clients including SMEs. In this area, the Bank has also ventured into the Islamic banking segment.

- **Islamic Banking:** HBL has been operational in the Islamic Banking domain for over a decade and, as of Sep'19, holds deposit market share of 4.5%. The Islamic Banking Deposits have grown at a CAGR of 14% during the period Dec'15-Sep'19. As of Dec'18, HBL operated with 48 dedicated Islamic Banking branches.

Financial Performance: **Strong**

Asset Growth & Mix

HBL's asset base has grown at a CAGR of 10.9% over the past 5½ year period (Dec'13-Sep'19), which was a little slower than industry asset growth of 13%. The asset mix has changed slightly over the years, as indicated by the asset base tilting towards credit operations in figure 8. Akin to the banking industry, HBL's asset base depicts significant exposure to the sovereign / public sector by way of investments & advances representing around 52.9% (Dec'17: 55.7%) of total assets as of Dec'18.

Credit Portfolio

- The credit portfolio largely (88%) constitutes domestic lending portfolio. In view of envisaged international consolidation, growth in advances is expected to be driven by the domestic market.
- Proportion of public sector/government financing was reported at 26% as of Dec'18 (Dec'17: 23%).
- Segmentally, corporate financings are the mainstay of HBL's credit operations, as reflected in table 13.
- Portfolio depicts concentration with largest 5 exposures constituting a fifth of the portfolio. However, adjusting for large public sector/ government guaranteed exposures, concentration in the portfolio is considered manageable.
- Notable sector exposures include 'Power & Energy', 'textile' and 'agri-business'.
- The trade financing business has depicted an adverse trend in recent years. The management recognizes the Bank's shortcomings in this area and plans to recoup the lost business by increased focus on this area.

Investments

- The investment portfolio largely (97%) constitutes debt securities, with majority of the equity stake being the investment in associates & JVs, constituting 2% of the investment portfolio.
- The breakup of the debt securities portfolio is provided in figure 11. As can be inferred, the portfolio mainly constitutes short-term (market treasury bills) and long-term (PIBs) issuances of the Government of Pakistan.
- Equity investment has significantly dropped over the last few years partly

Figure 8: HBL Asset Mix

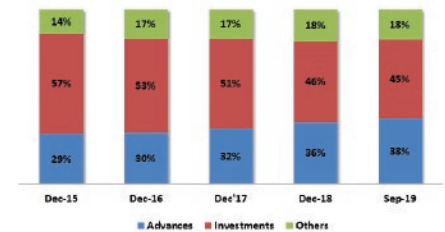


Table 13: Segment-wise Breakup of Advances (Domestic)

	Dec'17	Dec'18
Corporate (Including Structured Credit and Islamic)	56%	59%
Retail and Commercial	14%	13%
Consumer	6%	5%
Agriculture	4%	3%
Commodity	7%	7%
International	12%	12%
Others	1%	1%

Figure 9: Segment-wise Breakup of Advances Portfolio

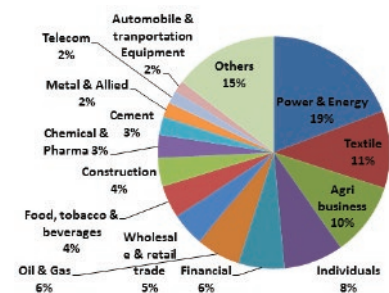


Figure 10: Trade Finance Business

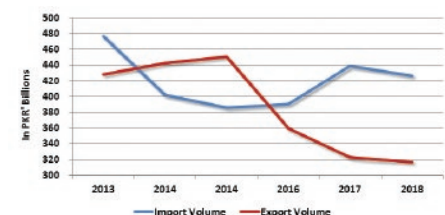


Figure 11: Debt Securities Portfolio

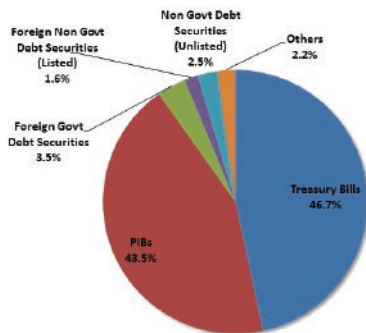
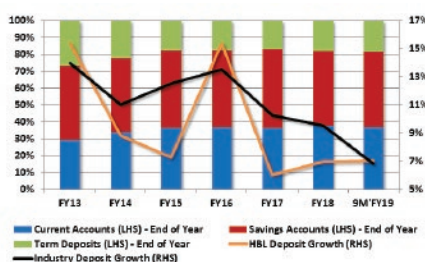


Table 14: Segment-wise Breakup of Portfolio

	Dec'17	Dec'18	Sep'19
Gross Impairment	8.2%	7.0%	7.0%
Corporate	11.1%	8.2%	NA
Retail and Commercial	2.1%	1.5%	NA
Consumer	2.1%	2.0%	NA
Agriculture	7.5%	8.1%	NA
Commodity	0.0%	0.0%	NA
International	12.4%	14.4%	NA
Others	2.4%	2.6%	NA
Provisioning Coverage	87.6%	84.7%	82.7%
Provisioning Coverage (incl. general)	91.6%	89.1%	86.9%
Net Impairment	1.1%	1.1%	1.3%
Concentration – Largest 5	20%	20%	NA
Largest 20	38%	39%	NA
Largest 50	51%	53%	NA

Figure 12: Deposits Composition & Growth Trend



due to the adverse equity market performance in the domestic market. Stake in domestic listed equities comprised about 3.1% of the bank's capital base as of Sep'19.

Credit Risk

- Credit risk of the portfolio is viewed positively, given Corporate segment is the mainstay of the lending operations, comprising about three-fifths of the portfolio.
- The overall portfolio impairment remains lower than the industry and compares favorably to the large banks' median.
- Nevertheless, remaining relatively stationary since 2013, the quantum of non-performing advances grew by 7% in 2018 and 8% in 9M19.
- In overview of heightened credit risk environment, we expect the growth trend in NPLs to continue. However, we expect impairment to broadly remain range-bound.

Liquidity

- The liquidity profile of the Bank is healthy as evident from its cost effective & primarily retail deposit mix.
- Akin to the banking industry in general, liquid assets to funding ratio, at 57.6%, is high, while ADR is also aligned with similar-sized banks.
- HBL caters to a sizeable and growing customer base of over 11 million customers which is more than double that of its major private sector competitor. Moreover, around 1 million (2017: 1.3m) new to bank (NTB) customers were added in 2018; highest by a local bank..
- The overall Current & Saving Accounts (CASA) proportion of the deposit base has grown from 73% of the deposit base as of Dec'13 to 82% as of Sep'19.
- HBL's consolidated cost of deposits (inclusive of cost on overseas deposits) is the second lowest amongst similar-sized banks in the industry.

Profitability

- HBL's long term RoAA & RoAE had remained stable, and commensurate to other banks in the industry, barring the two-year period 2017–2018. Profitability in 2017 & 2018 was largely impacted adverse performance in the international operations.
- Factors affecting profitability in 2017 & 2018 are as follows:
 - 2017: Sizable Rs. 23.7b penalty incurred on New York operations.
 - 2018: Weakening was due to international operations and sizeable non-recurring items (remediation & pension cost, business transformation cost, exchange losses on foreign currency borrowing and consultancy & legal expenses). In terms of core operations, declining trend in spreads and lower fee commission income (attributable to lower remittance and trade related fee) also contributed to the dip in profitability. On the administrative expenses front, excluding expenses related to remediation cost, pension charge and business transformation, normalized expense growth is in single digits.

- In the wake of penalties incurred on overseas operations, which have affected profitability, the bank's strategy now bears strong focus on infrastructure development. As a result the bank incurred Rs. 5.6bn in one-off consultancy on its Business Transformation Plan.
- As a result of adverse profitability, HBL's dividend yield, which used to range between 6-7% during 2013-2016, fell to 3.4% in 2017 and further dropped to 2.5% for 2018.
- Going forward, we expect RoAA & RoAE to normalize and become commensurate to other banks.
- Factors that may affect our profitability expectations include higher than expected provisions on IFRS 9 implementation, which is scheduled for full implementation by end 2020.

Table 17: Profitability Indicators

	2015	2016	2017	2018	2019 ^P	2020 ^P	2021 ^P
RoAA	1.7%	1.4%	0.3%	0.4%	0.7%	0.9%	1.0%
RoAE	19.9%	18.1%	4.6%	6.4%	9.9%	12.5%	14.4%
EPS	23.9	23.2	5.8	8.2	13.6	18.7	23.9
Spread	-	-	4.1%	3.9%	4.7%	4.9%	4.9%
Yield	-	-	6.6%	7.1%	10.0%	10.8%	10.0%
Cost of Funding	-	-	2.6%	3.2%	5.4%	5.9%	5.1%
Efficiency	47.0%	51.0%	57.1%	76.6%	71.7%	68.4%	66.1%

Capitalization

- Despite a sizeable settlement payment with respect to New York operations and significant growth in advances portfolio, capitalization has actually depicted improvement.
- We expect bank's leverage to remain under 15x over the medium to long term horizon.
- HBL's CAR is comfortably compliant with domestic regulations. Actual CAR requirement for HBL is actually 2% higher vis-à-vis other banks, owing to its status of a Systemically Important Bank (SIB).
- Given the increase in net-NPLs, net NPL in relation to Tier-1 capital increased to 7.9% as of Sep'19 (Dec'18: 6.5%).

Table 18: Capitalization

	2015	2016	2017	2018	2019 ^P	2020 ^P	2021 ^P
Equity (PKR B)	183	196	189	199	217	225	238
Leverage	12.1x	12.8x	14.2x	15.2x	14.4x	15.2x	16.1x
CAR	17.0%	15.5%	16.0%	16.2%	NA	NA	NA
Tier I CAR	13.1%	12.0%	12.0%	12.0%	NA	NA	NA
Net NPLs to Tier I Capital	7.8%	7.1%	6.7%	6.5%	NA	NA	NA

Table 15: Liquidity

	Dec'17	Dec'18	Sep'19
Deposits – Domestic	93%	93%	
Overseas	7%	7%	
Liquid Assets to Funding	63.8%	57.6%	
Concentration – Largest 5	3.8%	4.7%	
Largest 20	10.6%	11.5%	
Largest 50	15.7%	16.7%	
LCR	185%	173%	
NSFR	158%	141%	
Deposits – Retail	79%	80%	
Commercial	3%	2%	
Islamic	8%	9%	
Corporate	9%	8%	

Figure 13: Non-recurring (One-off) losses incurred in 2017-18

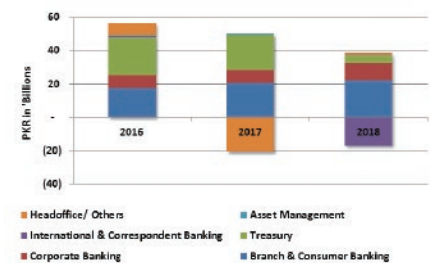


Table 16: Segment-wise Breakup of Profitability

In PKR' Billions	2017	2018
Penalty by NYDFS	23.7	
Impact of ongoing remediation		6.4
Cost of overseas borrowing & rupee devaluation		6.7
Administrative Expenses – Consultancy – Business Transformation Plan		5.6
Loss on international business		3.4

CORPORATE GOVERNANCE: **STRONG**

REGULATORY SUPERVISION

- As a listed entity, HBL is subject to the Corporate Governance (CG) Regulations, as prescribed in the Listed Companies Regulations, 2017, by the Securities & Exchange Commission of Pakistan (SECP).
- The CG regulations were recently updated in 2017, and include specific rules concerning Board & Board Committee compositions, Terms of Reference (ToRs) of the Board, Director Remuneration & Training and requirements prescribed for personnel heading the control functions such as Financial Control, Internal Audit etc. In addition, the regulations also lay down the reporting requirements. The regulatory guidelines are well documented and broadly cover all best practices.

**Table 19: Board Operations
Compliance with CG Best Practice
and Domestic Regulations**

Board Independence (1/3rd Independent)	✓
Independent Board Chairman	✗
At least 1 Female Board Member	✓
Board Meets Quarterly (Minimum)	✓
Board Attendance (>80%)	✓
Adequate Board Committees	✓
Board Committees Composition Compliant with Domestic Regulations	✓
Board Committees Composition Compliant with International Best Practices	✗
Board Committee Attendance (>80%)	✗
Fixed Remuneration Policy for Board members	✓
Board Self Evaluation	✓

BOARD GOVERNANCE

Board of Directors: HBL has an eight-member Board of Directors (Board) in place, of which all are non-executive directors, except the CEO.

Independence & Objectivity: With 3 off 8 members of the Board being independent, the composition complies with the minimum independence criteria of at least a third. As per the criteria of independence prescribed by SECP, a director's independence is considered hampered if he has served for more than 3 terms. At present, 1 independent director was recently elected in 2017, while the remaining 2 are on their 3rd and final term. The Board also includes a female director, which is a requirement under domestic regulations. Areas for improvement include induction of an independent director as the Board chairman, as recommended under CG best practices.

Board Meetings: As per company policy and domestic regulations, Board meetings are required to be convened on quarterly basis. Over the last 5-year period, at least 10 Board meetings were convened per annum. Attendance of all members was gauged as satisfactory.

Board Committees: HBL has 7 Board committees in place, which include 4 control related committees. An overview of the control committees is as follows:

- Board Audit Committee (BAC):** The BAC comprises 3 Board members, including 1 independent director, who also chairs the Board. The composition can be improved by revising the composition to an independent majority. Committee meetings are convened 7-9 times per annum, as observed since 2015. Attendance at committee meetings has remained satisfactory. In accordance with best practices, the BAC also annually meets the external auditors separately.
- Risk Management Committee (RMC):** The RMC comprises 3 Board members, which includes an independent director, a non-executive director and the CEO; In accordance with international best practices, the RMC is chaired by an independent director, albeit, an independent majority is preferred. Meeting frequency of the committee has remained above the quarterly requirement.
- Human Resource & Remuneration Committee (HRRC):** The HRRC constitutes 5 Board members, including 2 independent directors and is also chaired by an

independent director. Ideally an independent majority is preferred. Meeting frequency has averaged 6x since 2015.

- **Compliance & Conduct Committee:** This is a new committee, which includes an independent director and a non-executive director. Ideally Board committees should constitute at least 3 members, which is gauged to be an adequate quorum. In 2018, 6 committee meetings were convened.
- In addition to committees mentioned above there are 3 more Board committees, namely Development Finance Committee, Board Oversight Committee — New York and Board IT Committee.

Board Remuneration: The Board member remuneration policy complies with best practices, as it is devoid of any variable performance related incentive. As per policy, the remuneration is determined by the Board itself and presently it stands at Rs. 400k per meeting. As per policy, Directors are entitled to receive TA/DA and fare for travel as per the TA/DA policy approved by the Board.

Related Party Transactions: As per bank policy, all related party transactions are undertaken at an arm's length. Akin to industry policy, HBL staff is entitled to advances at discounted rate. Conversely, there are no advances outstanding against a Director.

Key Policies developed by HBL, which support the CG Score include:

- Anticorruption
- Whistleblowing
- Antifraud
- Conflict of interest
- Business cyber security

ORGANIZATIONAL STRUCTURE

- The management team at HBL is headed by Mr. Mohammad Aurangzeb, who was recently appointed as the President/CEO, in 2018.
- There are 5 management committees in place, namely Executive Committee, Compliance Committee, Risk Committee, HR Committee and Asset & Liability Management Committee (ALCO).
- The Bank's organizational structure constitutes 13 functional heads reporting to the CEO; these are besides the head of control functions, such as Audit Risk & Compliance, who functionally report to the relevant control committee at the Board.

INTERNAL CONTROL INFRASTRUCTURE

HBL's internal Control infrastructure is divided into 3 layers called the 'three lines of defense' model, which are as follows:

1. The 1st line of defense is the front office customer facing functions, wherein the bank's primary focus is to increase awareness.
2. The 2nd line of defense is the Compliance & Risk Management. A brief overview of these functions is as follows:
 - a. The Risk Management (RM) function monitors the adherence of the Bank

Table 20: Control Functions Staff Strength

	Head Count
Risk Management	52
Global Compliance	238
Internal Audit	188
Internal Control Unit, Global Operations	

with the documented risk appetite policy, which is set by the Board and is broadly in line with international best practices, regulatory requirements and revolving business needs. In accordance with CG best practices, the function reports directly to the Board Risk Management Committee.

Various risk committees at the senior management level are responsible for oversight and execution whereas day-to-day risk management activities are delegated to different levels through multi-tier management supervision and clearly articulated policies and procedures. Scope of the RM function is broad and covers all types of risk including, credit, liquidity, market & operational risk.

Recently the management has implemented Value at Risk (VaR) based limits. For operational risks management, key risk indicators such as Risk Control Self-Assessment (RCSA), Key Risk Indicators and Operational Loss Data Management are used to gauge the likelihood and severity of operational risk. The Operational Risk Profile and Fraud Risk Assessment are routinely shared with senior management and the Board Risk Management Committee. The Bank uses stress testing and scenario analysis to proactively assess the impact of different operational loss scenarios.

b. Compliance: Recently, HBL has formed a dedicated Compliance & Conduct Committee to enhance governance & oversight. The Compliance function includes a separate Head for International Compliance, both reporting to the Board-level compliance committee. In addition, the Bank has initiated a transformation program, which includes upgrades in the sanction screening and transaction monitoring systems. The management has also instituted a real time customer risk rating methodology incorporating FATF, BASEL and Wolfsberg guidelines. Staffing has been more than doubled and subject matter experts have been inducted in new areas such as Trade-Based Money Laundering, compliance training and project management. HBL has developed a holistic Financial Crime Risk Assessment based on local and international best practices to better dimension and mitigate its Compliance risk. The emphasis on Compliance training translated into the rollout of improved programs, both for e-learning as well as for classroom training. A suite of e-Learning modules was developed in Urdu, in addition to English, to ensure that the training is appropriately delivered and achieves maximum outreach and knowledge retention.

c. The Bank's Internal Control Unit (ICU) conducts on-site and off-site reviews of operations processes in branches as well as in the Head Office. ICU monitors and identifies design and implementation gaps in processes and ensures that timely remedial actions are undertaken.

3. The 3rd line of defense is the Internal Audit function. Scope of the function includes functional audits to evaluate the effectiveness of the control environment. A summary of material audit observations is presented to the Board, while the dedicated Board Audit Committee routinely reviews the audit reports being generated by the function.

Information Security: As a banking institution, information security is a critical control area. So far, HBL is the only bank in Pakistan to be ISO 27001 (Information Security Management Systems) certified. In addition HBL has also achieved and maintained Payment Card Industry Data Security Standard (PCIDSS) certification, the security standard for the payment cards industry.

ENVIRONMENTAL ACCOUNTABILITY: HIGH

ISG-ES GRADING REPORT:
INTERNATIONAL INDUSTRIES LIMITED

REGULATORY SUPERVISION

The SBP issued 'Green Banking Guidelines' (GBG) in Oct'17, allowing the banks a year to adopt the guidelines and move on to green banking adoption. The Guidelines require the banks to:

- Develop a Green Banking Policy. This shall cover 3 areas, which are:
 - **Environmental Risk Management:** Incorporating environmental risks as part of credit risk methodology and assessment of existing portfolio, while incorporating the same in future business acquisition. This shall include Environmental Due Diligence (EDD) and Environment Risk Rating (ERR) of all clients. This shall include an Environmental Impact Analysis (EIA) of the existing portfolio, while making EDD and ERR mandatory for all future transactions.
 - **Green Business Facilitation:** This shall include assigning personnel to take lead in development of green financing products.
 - **Own Impact Reduction:** The bank is required to appoint personnel having qualifications in engineering and/or facility management in order to oversee own impact reduction.
- Set up organizational structure to manage Green Banking initiatives.
 - Initially, this shall include at least a dedicated Green Banking Manager and a Green Banking Officer. The Guidelines also require at least 1 Environment Risk Manager to have voting rights in the Credit Risk Committee.
 - Banks are required to develop internal structures; including procedures to identify assess, mitigate, monitor and report on environmental risks.
 - Banks are required to set maximum exposure limits for the industries/ sectors which are more hazardous to the environment
 - Banks are required to develop financial mechanisms adapted to fit green investments practices for all clients.
 - Banks are required to develop a structural approach for developing capacity for growing green banking.
 - Banks are required to periodically review and report environmental risk positions. The responsibility for reporting of environmental risks and compliance with environmental regulations has been placed with the Risk Management function, to be done in coordination with the Green Banking Office.
 - To undertake green awareness campaign for clients

HBL's efforts to comply with the GBG have been superior vis-à-vis the industry. Nevertheless, there remains room for improvement in terms of achieving further compliance with the GBG. So far, HBL has undertaken the following measures to comply with the GBGs:

- A Green Banking Office has been set up, which includes a Green Banking Manager and in addition to 3 additional resources.
- HBL has developed a Social & Environmental Management System (SEMS) policy. Salient features of the policy are as follows:

- The policy defines the direct, indirect and reputational risk implied by its exposure against various counterparties.
- The policy categorizes HBL's existing counterparty exposures in terms of Category A to C, with Category A, representing an exposure representing significant adverse social and environmental impacts that are irreversible, diverse, or unprecedented and Category C representing exposures with the lowest environmental impact.
- The policy also provides a mapping of various categories with the respective industries that are most likely expected to be part of that category.
- In addition, the policy lays out the SEMS evaluation & reporting process.
- So far, HBL has conducted EDD for all counterparties that are part of its existing portfolio.
- ERM has been made part of the corporate/commercial loan disbursement procedure, which includes an environmental checklist to be filled for all new loan applications.
- In the area of product development, the Bank has launched a financing scheme for renewable energy i.e. solar. The scheme can be availed by individuals, enterprises and vendors/suppliers operating in the solar power industry.
- In the area of Own Impact Reduction, the Bank has made efforts to shift towards renewable energy, with an ambitious plan to convert 150 branches to solar power. Nevertheless, a holistic Own Impact Reduction is yet to be conducted, which would include an assessment of the Bank's energy consumption and assignment of reduction targets.

GREEN HOUSE GAS (GHG) EMISSIONS

- **Scope 1–3 Emissions:** As a banking concern, scope 1 & scope 2 emissions are limited to electricity procured from the utility company, own backup generation in case of power outages and general movement of resources and personnel. The scope 3 emissions are significant, as it would include emissions from the entire portfolio. Even though the Bank has already reviewed its portfolio from the perspective of compliance with domestic regulations, as such the Bank so far does not have a policy in place to track & report scope 3 emissions.
- **Initiatives to Reduce Emissions:** These include an ambitious plan to convert 150 branches of the Bank to solar power.
- **Reporting:** At present, the management is not tracking the bank's own energy consumption per annum. Once the Bank's energy consumption per annum can be gauged, trend can be analyzed and reduction targets can be set. Ideally, the measure used for reporting would be energy consumption (in KWs) per square feet of office space. Using the utilities expense as a measure for energy consumption and the number of branches as a proxy for bank's size, HBL's utility bill per branch, at 1.08mn, is closely aligned with the sector median.

WATER CONSERVATION

- With Pakistan being a water stressed nation, assessing water consumption and assigning reduction targets is considered an essential part of EA.
- As a non-manufacturing banking concern, water conservation only applies to HBL in the area of Own Impact Reduction, whereby concerted efforts to educate work force can translate in meaningful reduction in water intake, specifically in view of more than 20k staff strength.

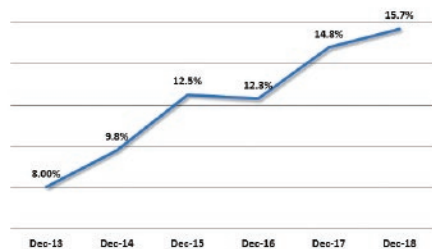
WASTE MANAGEMENT

- As a non-manufacturing banking concern, waste management is limited to office waste, which is limited to paper waste.
- In this area, concerted efforts have been made to move towards digitization and reduce paper use.
- Going forward, assessment of the quantum of office waste being generated per annum and assignment of reduction targets warrants consideration.

IMPACT ON SURROUNDINGS

- HBL's 1,740+ strong branch network is located within urban centers; accordingly the risk of impacting wild life habitat is limited.
- Additionally, as part of its CSR initiatives, the Bank undertakes activities aimed at creating a positive impact on its surroundings. Activities conducted in the latest year were as follows:
 - 150 employees at the Bank's IT Innovation Center organized a plantation drive around the premises.
 - HBL, in collaboration with the World Wildlife Fund, celebrated the World Environment Day with this year's theme/tag line #BeatPlasticPollution. An interactive awareness session for employees was organized and as a sequel, Karachi employees participated in a 'Beach Clean' Activity.

Figure 14: Female Permanent Staff Ratio



SOCIAL RESPONSIBILITY: **STRONG**

INTERNAL STAKEHOLDERS

Employees: As of Dec'18, HBL has staff strength of 20,254, including 161 contractual employees. In addition, 3,279 employees of outsourcing services were assigned to the Bank to perform services other than guarding and janitorial services.

- **Gender Diversity:** Akin to the banking industry in general, where women remain underrepresented in all designations including junior/middle management, executive management and Board, women are underrepresented at HBL. Cognizant of the same, a number of initiatives have been undertaken, which have translated in growth in female permanent staff from 9.8%, as of Dec'14, to 15.7% as of Dec'18. The same is targeted to increase to 20% by 2020. Some of the initiatives undertaken to promote gender diversity are as follows:
 - Specific programs such as 'HBL Elevate' and 'HBL Beacon' were rolled out to develop women leadership. Progressing towards its objectives of increasing women representation in the Bank, emphasis was placed on hiring at least 30% women in new hires. Nevertheless, this not a mandatory policy objective, and actual incremental hiring for women has averaged 20% over the past years.
 - Focus groups conducted in 2016, which revealed certain gender biases within the organization, were used to generate content for Gender Intelligence Trainings. These were conducted in collaboration with IFC, and as per IFC, did translate in increasing positive gender awareness and strengthening support for women at HBL.
 - In the past, the management did conduct an internal payroll audit, to gauge differences in remuneration for men and women in similar roles. As per the management, the results of the audit did not depict any inequality at all cadres.
 - **Non-monetary Support for Women:** Besides their monetary remuneration, various other areas for support for women are in place at HBL:
 - **Maternity Leave:** HBL women employees are entitled to 4 months of maternity leave, with a limit of 2x.
 - **Flexible Work Arrangements:** Cognizant of social roles of women, HBL has initiated flexible work hours and part time work, which albeit is still in pilot phase.
 - **Conveyance:** HBL provides pick & drop arrangements for women, where transportation is gauged to be a concern.
 - **Child Assistance Allowance:** For clerical cadre, a monthly allowance is paid; the amount is as per fee voucher from the education institution. In addition, the management cadre is also entitled to education allowance for one child up to the age of 18.
- **Attrition:** HBL's rate of employee attrition has average 8.8% during the past 3-year period, which is indicative of room for improvement. In order to reduce the attrition rate, following initiatives have been undertaken:
 - In 2018, an engagement survey was rolled out for the first, which

concluded an overall engagement level of 78%, ahead of Mercer's 74% global average.

- Routine engagement sessions and town halls with the President and senior team members are conducted to enhance staff engagement.
- In an effort to attract outstanding millennials, a batch of 30 high potential employees were selected for the Bank's 'Management Trainee' program. The program includes short international assignments in addition to departmental rotation.
- **Policies:** HBL has an HR Policy in place, albeit the same is not available in the public domain.
- **Process to Address Employee Grievances:** As per HBL's documented policy on addressing employee grievances, a committee is formed for every formal complaint. In the outgoing year, a total of 18% of such complaints resulted in a positive outcome for the complainant, wherein performance rating of the complainant was revised upwards.
- **Learning & Development (L&D):** In the area of investment in human capital, HBL is the industry leader, given a training expenditure twice that of the Large Banks in the industry. There are 2 types of trainings undertaken at HBL:
 - **E Learning Modules:** These are available on the bank's intranet and cover a wide variety of topics, including AML/CFT, Sanctions, Whistleblowing, Anti-Bribery & Corruption, Workplace harassment and code of ethics etc.
 - **Regular Instructor —led Classroom Training Programs:** These are conducted at dedicated training areas situated Islamabad, Lahore & Karachi. These cover a range of areas including Branch Operations, Compliance & Regulations, Credit & Risk, Induction & Development, Information Technology, Leadership, Product-based trainings, Trade & Treasury and Workplace skills.
 - HBL is one of only two banks in Pakistan to be designated as a Training Organization Outside Practice (TOOP) by the Institute of Chartered Accountants, Pakistan, which allows article-ship to be completed through work experience at the Bank.

Learning & Development: The following activities were conducted:

- Specific learning interventions were rolled out that resulted in accomplishing a total of over 750,000 man hours of training during the year, including through e-learning programs covering a wide range of topics.
- High-end training was provided to over 180 IT employees where constant upgradation of skills is critical in a rapidly changing technology environment.
- More than 1,000 staff received Islamic Banking training while several also attended external training courses offered by SBP, IBA-CEIF and ETICHA Institute of Islamic Finance.

**Table 21: Staff Training Cost
(Comparison with Large-sized Banks)**

In PKR' Millions	2017	2018
HBL	15,945	17,629
United Bank	11,869	9,802
Allied Bank	4,208	8,899
National Bank of Pakistan	1,480	8,337
MCB Bank	4,699	4,137

ISG-ES GRADING REPORT:
INTERNATIONAL INDUSTRIES LIMITED

Figure 15: Women Customers

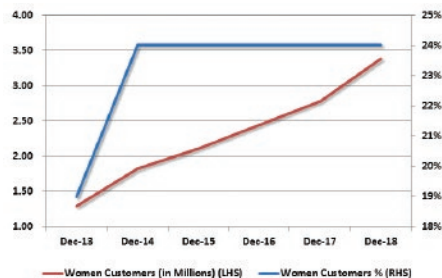
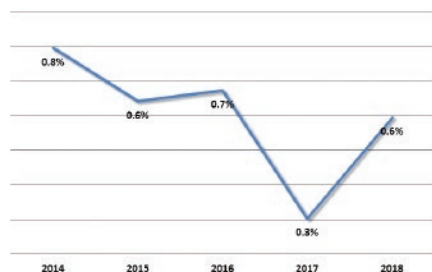


Figure 16: Donations (as a % of PBT)



EXTERNAL STAKEHOLDERS

Customers: HBL's clientele has grown at a CAGR of 15.7% over the 5-year period (2014–2018), representing the single largest clientele among all banks.

- **Gender Diversity:** In 2016, focus groups were conducted at the bank, which revealed certain gender biases within the organization.
 - In order to address these biases, Gender Intelligence trainings were conducted to spread positive gender awareness.
 - HBL launched the HBL Nisa program in 2016, which aims to provide financial services to women's market in Pakistan. In addition, the Nisa program also promotes non-financial services including workshops, training sessions and networking opportunities to help grow outreach. In 2018, the Bank added 112,000 new Nisa accounts, bringing the total portfolio to over 430,000 accounts with a deposit of Rs. 34.2b.
 - Although HBL's women clientele has grown, standing above 3mn as of Dec'18, women clientele as a percentage of aggregate has remained stable at 24%.
 - 25% of all Konnect accountholders are women
 - Through its subsidiary FMFB, HBL services 420k micro-borrowers, 36% of whom are women.

Community: Over the last 5 years, HBL has contributed 0.6% of its Profit Before Tax (PBT) as donations. Even though it compares favorably to similar-sized banks in the industry, the donation to PBT ratio falls short relative some of the higher rated companies in our grading universe. Nevertheless, HBL maintains a documented policy wherein it is mandatory that the bank contributed 1% of its bottom line to the HBL Foundation, which is the philanthropic arm of the organization. Some of the initiatives of the Bank in 2018 are as follows:

- **Health**
 - 29 doctors of Indus Hospital benefited from the Emergency Medicine Training Program which will provide free health care to the general public.
 - 12 free eye surgical camps were setup in collaboration with Marie Adelaide Leprosy Center in Balochistan and Gilgit Baltistan, bringing the total number of beneficiaries to more than 15,000.
 - HBL partnered with the Cancer Care Hospital and Research Center, Jinnah Post Graduate Medical Center, Lady Dufferin Hospital and Aga Khan Health Service all of which will ultimately benefit the less privileged sections of society.
 - Employees collaborated with the Indus Hospital to launch a Blood Donation Drive and organized an Eid Milan Party for special children.
- **Education**
 - Vocational training, conventional education and skill development was conducted in collaboration with an NGOs such as 'Helping Hands', Welfare Association, Network of Organizations Working for People with Disabilities (NOWPDP) and others. Contributions were made to institutions across the country including a youth vocational training center in Skardu, Baltistan, and higher educational institutions in Balochistan and in interior Sindh.

- HBL's support has facilitated The Citizens Archive of Pakistan to set up an interactive museum in an underprivileged area of Lahore.
- **Community**
 - More than 500 employees dedicated their time and resources to social and national causes. HBL, in collaboration with I AM KARACHI, participated in the Heritage Walk which aims to rekindle the general public's interest in the city's heritage and historic sites.

Shareholders: As a listed entity, HBL has made detailed disclosure, including Corporate Governance disclosures, which are considered superior in the domestic context.

- HBL's duty of transparency to shareholders is fulfilled by the regulations applicable on listed entities, wherein it is required to publish interim financial statements within 2 months and annual financial statements within 4 months from the period end.
- HBL has a designated investor relations department in place to handle investor queries.
- The Bank regularly undertakes investor presentation, which include in-depth details of accounts.
- Nevertheless, historical evidence suggests a delay in information relay to investors relating to a significant event i.e. the penalty incurred on the New York-based operations. Ideally material contingent liabilities need to be reported in interim financial statements to avoid the risk of 'insider trading'.

SHARI'A GOVERNANCE: XXXX

SCORE DRIVERS

- The Shari'a governance framework at HBL-IB is aligned with SBP's Framework. It includes an empowered Shari'a Board an executive management that is fully sensitized to the importance of Shari'a compliance, among other things.
- The Bank has a strong disclosure culture.
- SBP's comprehensive liquidity management solution including a benchmark Islamic Interbank Offered Rate (IIBOR) and lender of last resort facility for Islamic Banking Institutions is yet to be rolled out.
- Despite the dominance of diminishing Musharakah financings, the Bank's portfolio is essentially made of fixed-return contracts and can benefit from diversification.
- Notwithstanding the permissibility of Hiba in profit distribution, its use undermines the risk-sharing proposition of Mudharaba-based investment accounts.

HBL ISLAMIC BANKING BRANCH

- HBL-Islamic Banking (HBL-IB) is one of the largest Islamic banking players in Pakistan.
- The Bank operates 47 (2017: 47) Islamic Banking Branches and 493 (2017: 495) Islamic Banking windows as at end 2018.
- The operation constituted 7.3% (2017: 7.4%) of the Bank's consolidated asset base and contributed 21.2% (2017: 28.6%) of its consolidated net profit for 2018.

REGULATORY SUPERVISION

- HBL-IB is subject to regulations and inspection by a dedicated Islamic Banking Department (IBD-SBP) at the State Bank of Pakistan.
- In addition to its regulatory role, the SBP centralizes Shari'a governance through its Shariah Advisory Committee (SAC), which serves as an apex body providing Shari'a opinion and advice.
- The SBP's Shari'ah Governance Framework ('the Framework'), last revised in June 2018, explicitly defines the roles and responsibilities of various organs towards Shari'ah compliance, including the Board of Directors (BOD), Executive Management (EM), Shari'ah Board (SB), Shari'a Compliance Department (SCD), Product Development (PD), internal auditors and external auditors.
- Moreover, the SBP has issued detailed instructions for Profit and Loss Distribution and Pool Management.
- The SBP is yet roll out the comprehensive liquidity management solution announced in previous years, including a benchmark Islamic Interbank Offered Rate (IIBOR) and lender of last resort facility for Islamic Banking Institutions.

SHARI'A BOARD

- **Composition:** HBL-IB's Shari'a Board comprises three renowned Shari'a Scholars, one of whom is designated as a Resident Shari'a Board Member.
- **Resident Shari'a Board Member (RSBM):** The RSBM is appointed on a full-time basis to oversee the procedures adopted for implementation of SB's fatawa and provide guidance to the management and staff of the Bank. Any explanations or clarifications given by RSBM are binding. At least quarterly, the RSBM submits a report to the SB, for ratification of all the material explanations/clarifications provided during the course of his work.
- **Independence:** The SGF demands that SB members discharge their duties independently and objectively. In order to uphold independence, the Board of Directors appoints and approves the SB's Terms of Reference (ToR) and remuneration.
- **Meeting Frequency:** During 2018, the SB held various meetings in excess of the minimum requirement of four, which is commendable for streamlined oversight. Meetings were also attended by the Head of Islamic Banking. Meeting minutes are submitted to IBD-SBP within 15 days of their approval/confirmation, for information and record.
- The SB is additionally required to meet the BoD at least on a half yearly basis; to keep the latter abreast of the risk of Shari'ah non-compliance and ensure diligent oversight.

- **Remuneration:** The SB's remuneration structure is approved by the Board of Directors and does not feature any variable element. Details on SB remuneration are disclosed in the annual report.

SHARI'A COMPLIANCE DEPARTMENT

- **Composition:** HBL-IB's SCD is equipped with a team of qualified professionals, including a Shari'a Scholar, to ensure Shari'a Compliance at various levels and to take corrective measures. The SB has recommended adding resources to the existing team, in view of the growing pace of business.
- **Independence:** The Department's Head functionally reports to the SB, which is responsible for finalizing his performance appraisal.
- **Terms of Reference:** Besides facilitating training and serving as the Secretariat to the SB, the SCD reviews relevant documentation and procedures and obtains sufficient information and evidence to form an opinion on compliance with respective Shari'a rules and guidelines issued by the SB and the SBP. Based on these reviews, the SCD submits a periodical report to the SB on the overall Shari'a compliance environment of the Bank. It is also responsible for enforcing any corrective actions determined by the SB.

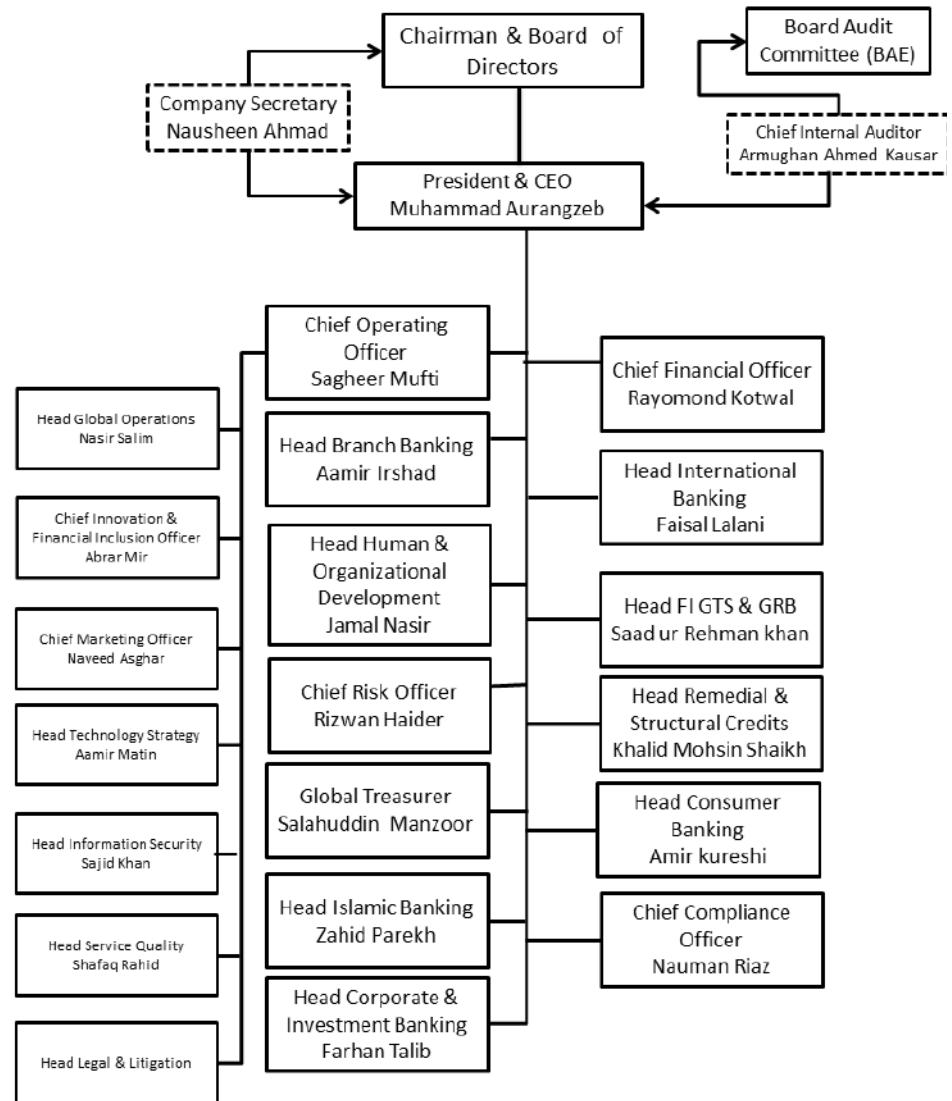
INTERNAL SHARI'A AUDIT UNIT

- **Composition:** A dedicated Internal Shari'a Audit unit was set up in 2018 within the Internal Audit function. The unit consists of adequately trained and skilled staff, including one Shari'a scholar.
- **Independence:** The Head of ISAU reports to the Head of Internal Audit, who in turn reports to the Board Audit Committee directly.
- **Terms of Reference:** The ISAU undertakes quarterly post-disbursement audits of profit distribution, a report of which is presented to the SB for its consideration and prescription of appropriate corrective actions. The final report along with the corrective actions put forth by the SB is sent to the Board Audit Committee for information and enforcement purposes.

SHARI'A DISCLOSURES

- The Bank makes adequate Shari'a-related disclosures to investment account holders, including the annual report issued by the SB, SB members' profiles and HBL-IB's unconsolidated financial statements.
- HBL-IB has a detailed profit distribution policy that is aligned with SBP's Instructions for Profit & Loss Distribution and Pool Management for Islamic Banking Institutions and approved by its SB. The policy is reviewed every 3 years or earlier, if required and was last updated in June 2018.
- The Bank maintains a Profit Equalization Reserve. In case the balance of PER is not sufficient to bridge the gap in expected market returns, HBL-IB may offer up to 60% of its Mudharib share as Hiba (gift) to investment account holders. Hiba will be distributed across the board to all deposit categories. The practice of offering special or individual Hiba to priority customers has been phased out pursuant to SBP's instructions. Hiba to depositors amounted to PKR 365.3mn in 2018 (2017: Rs. 310.7mn, 2016: Nil). Notwithstanding the permissibility of Hiba in profit distribution, its use undermines the risk-sharing proposition of Mudharaba-based investment accounts.
- The Bank is not currently maintaining any investment risk reserve.
- The Bank has an approved charity policy in place. The charity account is supervised by the Shari'a Board.
- Zakat on deposits are deducted on valuation dates from eligible accounts (those with balances in excess of the exempted limit as declared for that particular Zakat year). Furthermore, the Bank's website enables the giving of Zakat to a charity organization, through the Charity organization's own website; HBL Mobile; HBL Internet Banking and HBL Branches.

HBL ORGANIZATIONAL STRUCTURE



SOVEREIGN ANALYSIS: PAKISTAN

Pakistan has been attributed the highest risk country among regional counterparts, having the lowest score on the CCXI/VIS Country Risk scale.

Regional Risk: With rising domestic demand and sound investment environment, South Asia has been the fast growing regions in the world over the past few years, and is a popular destination for international investments. From country risk perspective, South Asia is advantageous in its large scale of economy, abundant labor and high economic growth. However, weak infrastructure and low per capita income are economic bottlenecks. Fiscal debt risk is relatively high, given long-term high fiscal deficit rate, heavy debt burden and limited solvency, as a result of fragile fiscal revenue base. Financial markets are not well developed, and banking system risk is relatively high due to poor capital adequacy, asset quality and profitability. Regionally current account deficit is much higher than the average of emerging market countries. Typically, many countries are in prolonged deficit. Exchange risk of South Asian countries except Bangladesh and India is relatively high. Besides, all over South Asia, except Sri Lanka, national politics are rocky and geopolitical risk is prominent, threatening regional stability.

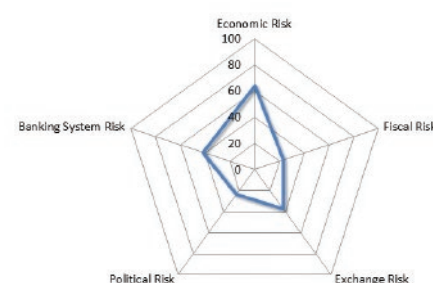
Table 22: Country Risk Scores

Country	Score*
India	54.98
Bangladesh	52.48
Sri Lanka	48.15
Pakistan	36.05

Source: Regional Risk of Countries along the Belt & Road – CCXI & VIS. * Scores are 0-100, with higher score depicting a lower risk level.

Country Risk – Pakistan: Over the years, Pakistan has gradually shifted from agriculture-led economy to service-industry oriented economy, with brisk performance in construction and service industries. As an ally of China, Pakistan has witnessed faster increase of foreign capital inflows and steadily higher growth of economy since it received bailout from IMF in 2013. However, given a worsening twin deficit situation, the newly elected government has undertaken mandatory structural adjustments, which is expected to result in an economic slowdown over the medium, whilst correcting the twin deficit situation.

Figure 17: Pakistan Risk Scores



- **Economic Risk:** Subsequent to a high growth period witnessed during the period FY14–FY18, averaging 5.3%, a slowdown in growth is projected, wherein growth is expected to remain below 4% over the medium term horizon. The low per capita income, weak infrastructure and high political risk are stumbling blocks to Pakistan’s economic growth, leading to relatively high economic risk.
- **Fiscal Risk:** Given a narrow tax base, tax revenues are low and deficit scale is relatively large. Fiscal debt risk is quite high, given sizable debt to GDP, and relatively small revenue base.
- **Banking System Risk:** This is relatively high in Pakistan, mainly sourcing from heavy NPL pressure and deterioration of asset quality.
- **Political Risk:** Policy makers, military force and judicial authority have complicated relationship, and the political scene remains turbulent. The terrorist attack threat has been in existence for a long time, and the territorial dispute between Pakistan and India has raised the country’s geographic risk.
- **Exchange Risk:** the country has moved from a managed float to free float, to manage currency parity, with the exception to intervene only in cases to curb speculation. Nevertheless, in view of the sizable external imbalance and limited foreign exchange reserves, exchange rate risk remains high.

Future Outlook: Under the recent government, adequate local currency depreciation has been undertaken, which should help in curbing the twin deficit situation. Nevertheless, economic growth is expected to remain depressed, while twin deficits are expected to persist over the medium term, with inflation expected to reach double digits as structural adjustment is undertaken. On the positive side, Pakistan has established an all-weather strategic partnership with China, with political and mutual trust and trade cooperation between the two deepening increasingly.

THE SCORING FRAMEWORK

The following factors are inputs in determining the overall ISG-ES Score which are reflected in respective range-bound scales as below:

INVESTMENT STRENGTH SCORING SCALE

Scale	Score Range	Definition
IS 1	(91-100)	Very Strong Investment Strength
IS 2	(76-90)	Strong Investment Strength
IS 3	(61-75)	Good Investment Strength
IS 4	(40-60)	Medium Investment Strength
IS 5	(less than 40)	Low Investment Strength

SOCIAL RESPONSIBILITY SCORING SCALE

Scale	Score Range	Definition
SR 1	(91-100)	Very Strong Social Responsibility
SR 2	(76-90)	Strong Social Responsibility
SR 3	(61-75)	Good Social Responsibility
SR 4	(40-60)	Adequate Social Responsibility
SR 5	(less than 40)	Weak Social Responsibility

CORPORATE GOVERNANCE SCORING SCALE

Scale	Score Range	Definition
CG 1	(91-100)	Very Strong Corporate Governance
CG 2	(76-90)	Strong Corporate Governance
CG 3	(61-75)	Satisfactory Corporate Governance
CG 4	(40-60)	Adequate Corporate Governance
CG 5	(less than 40)	Weak Corporate Governance

ENVIRONMENTAL ACCOUNTABILITY SCORING SCALE

Scale	Score Range	Definition
EA 1	(91-100)	Very High Environmental Accountability
EA 2	(76-90)	High Environmental Accountability
EA 3	(61-75)	Good Environmental Accountability
EA 4	(40-60)	Medium Environmental Accountability
EA 5	(less than 40)	Low Environmental Accountability

Based on the above discussed parameters, the overall ISG-ES is derived at using a weighted average score.

COMPONENT WEIGHTS

Components of ISG-ES	Weights
Investment Strength	60% (Business Risk 35%/ Financial Performance 25%)
Governance	20%
Social Responsibility	10%
Environment Accountability	10%

OVERALL ISG-ES SCALE

Scale	Score Range	Definition
ISG-ES 1	(91-100)	Very Strong Investment Strength Prospects
ISG-ES 2	(76-90)	Strong Investment Strength Prospects
ISG-ES 3	(61-75)	Good Investment Strength Prospects
ISG-ES 4	(40-60)	Medium Investment Strength
ISG-ES 5	(less than 40)	Low Investment Strength Prospects

A single (+) sign or a double (++) could be added to express relatively higher investment strength prospect within the category.

RATING COMMITTEE MEMBERS



Ms. Ariel Lei Yang is the Vice President of China Chengxin International Credit Rating Co., Ltd, and Executive Director and CEO of China Chengxin (Asia Pacific) Credit Ratings Co., Ltd. She is in charge of the company's international business and branding. She is also the head of the company's Shenzhen and Hong Kong offices.

Ms. Yang joined CCX Group in 2011 as the Chief of Staff to the Chairman, and later as General Manager of International Business Department and Managing Director of CCXI. Ms. Yang holds BA in Journalism from Wuhan University and MA in Mass Communication from UK.



Ms. Christine Zhang is the General Manager of Overseas Business Department of CCXI, responsible for rating service for sovereign and multinational institutions, as well as Panda bond rating. Ms. Zhang is also the member of Credit Rating Committee in CCXI & CCXAP, responsible for panda bond and offshore bond rating. Ms. Zhang and her team has undertaken most of the MDB, sovereign, sub-sovereign cases

Ms. Zhang earned Bachelor Degree of Economics, Master Degree of Macro Economics from Renmin University of China.



Ms. Faraha Perveen Khan is a Senior Analyst and a Rating Committee member at IIRA. She possesses over 10 years of experience in credit ratings covering corporate and financial institutions (FIs) domains; Since August 2016, Ms. Farah has been working as a senior financial analyst at IIRA where she is primarily involved in conducting fiduciary and credit ratings of Islamic FIs within MENA region, while she also worked on sovereign and corporate

ratings. Previously, Ms. Farah was associated with CRISIL — an S&P Global Company in India, for about 9 years.

She holds a BMS (Bachelor of Management Studies, with elective in Finance) from University of Mumbai, India and has completed Chartered Accountants Professional Examination II — The Institute of Chartered Accountants of India.



Mr. Hector Alvarez is an Associate Director at Rating-Agentur Expert RA where he oversees a wide portfolio of rated entities in the insurance and banking sectors as well as sovereigns. Mr. Alvarez also introduced the ESG Rating Methodology and leads its continuous improvement process. Previously, Hector worked as an advanced manufacturing engineer at Nemak in Monterrey, Mexico and was part of the collateral management team at State Street Bank in

Frankfurt. He graduated from Tecnológico de Monterrey with a degree in Industrial and Systems Engineering and from Frankfurt School of Finance & Management where he completed a Master of Finance with a Corporate Finance concentration. Recently, he obtained the International Certificate in Corporate Finance from Columbia Business School.



Mr. Javed Callea is Advisor in VIS since 2010. He is a professional in the financial sector with 35 years of experience mostly in the financial institutions with certain exposure to service and infrastructure sectors in Pakistan. He has held the position of Chief Executive of a leasing company for 10 years. His core areas of expertise cover leasing, development financing, project management, investment & merchant banking, strategic investment management and real estate. He has also served as Member Finance of Water & Power Development Authority of Pakistan and as member of the Inquiry committee on stock exchange crises in 2000 commissioned by the SECP. He earned his MBA degree from the Institute of Business Administration in 1974.



Ms. Rong TIAN Rong is currently the Managing Director of China Chengxin (Asia Pacific) Credit Ratings Company Limited.

Ms. Tian joined China Chengxin Credit Rating Group in 2008. Prior to her current post, she was the Credit Analyst and Assistant to General Manager of Business Development Department of China Chengxin Securities Rating Company Limited, as well as the Marketing Director of China Chengxin

International Credit Rating Company Limited.

Ms. Tian holds a Bachelor's Degree in Management and a Master's Degree in Finance from Southwestern University of Finance and Economics.



Ms. Svetlana Grishankova is the Managing Director of Rating-Agentur Expert RA GmbH since 2013. She holds BSc degrees from the Higher School of Economics in Moscow and University of London, as well as MSc degree in Finance and Economics from the London School of Economics. Ms. Grishankova has been working in private equity in London and following that held leading positions in a number of investment projects. She was managing the rating

activity in Europe of Expert RA (Moscow) and then fully involved in the foundation of Rating-Agentur Expert RA GmbH in Frankfurt being responsible for the strategy and development of the agency, including its process of obtaining ESMA registration.



Ms. Sabeen Saleem, CFA is CEO of IIRA since 2012. She has 20 years of multifaceted experience in financial risk assessments spanning Banks, Manufacturing Concerns, Fund Managers and Insurance Companies, with specialized focus on Islamic finance in all of these areas. Sabeen has extensive experience working in developing countries. She has been associated with the credit ratings industry for over a decade and has pioneered ratings in the social sector of Pakistan while also being actively involved in research endeavors of considerable significance in the area of Islamic finance. She has a Masters degree from the Institute of Business Administration, Karachi and is also a CFA charter holder.

PROFILES OF PARTICIPATING RATING AGENCIES

VIS CREDIT RATING COMPANY LIMITED – PAKISTAN

VIS Credit Rating Company Limited (VIS), approved by Securities & Exchange Commission of Pakistan and State Bank of Pakistan, is operating as a 'Full Service' rating agency providing independent rating services in Pakistan.

VIS is a joint venture between Vital Information Services (Pvt.) Limited (VIS) — Pakistan's only independent financial research organization, Pakistan Stock Exchange Limited and ISE Towers RIET Management Company Limited.

Previously in 2001, Japan Credit Rating Agency, Japan (JCRA) and VIS had entered into a Joint Venture Agreement whereby JCRA acquired 15% shareholding in the then company (DCR-VIS Credit Rating Co. Ltd.) which has subsequently been bought back by VIS in December 2018. DCR-VIS Credit Rating Co. Ltd. was incorporated in 1997 as a joint venture between VIS, Karachi Stock Exchange Guarantee Limited (KSE), Islamabad Stock Exchange Limited (ISE) and Duff & Phelps Credit Rating Co., USA (DCR). Subsequent to DCR's merger with Fitch IBCA, DCR sold its interests in DCR-VIS to VIS in 2001.

CHINA CHENGXIN INTERNATIONAL CREDIT RATING COMPANY LIMITED - CHINA

China Chengxin International Credit Rating Co., Ltd. ("CCXI") was founded in October 1992. Approved by the head office of the People's Bank of China, CCXI was the first nation-wide credit rating agency in China.

CCXI, together with its wholly-owned subsidiaries CCXR and CCXAP, is officially qualified to provide full-range rating services in China's inter-bank bond market and exchange bond market, as well as offshore market. With the largest business operations and the best quality of services, CCXI enjoys the highest reputation of credit rating services in capital markets.

Leading China's credit rating industry in the past 26 years, CCXI has maintained the largest market share across the capital market, winning a dominant position in structured products and panda bonds. Almost all the first ratings of bonds and financing instruments in China were undertaken by CCXI. CCXAP is the first mainland Chinese rating agency to obtain Type 10 rating license in the strictly-regulated HK market. Qualified to provide credit rating services in the offshore and international market, CCXAP has already served clients from more than a dozen industries.

CCXI has operations and offices across China with regional headquarters in Beijing, Shanghai, Shenzhen, Wuhan and Hong Kong. CCXI has nearly 700 analysts, more than half of whom have overseas education and/or working background.

ISLAMIC INTERNATIONAL RATING AGENCY - BAHRAIN

IIRA has been set up to provide independent assessments to issuers and issues that conform to principles of Islamic finance. IIRA's special focus is on development of local capital markets, primarily in the region of the Organization of Islamic Countries (OIC) and to provide impetus through its ratings to ethical finance, across the globe.

IIRA was founded as an infrastructure institution for the support of Islamic finance as conceived by the Islamic Development Bank (IDB). This puts IIRA in league with system supporting entities like AAOIFI and IFSB. The IDB remains prominent shareholder, and maintains oversight through its nominee, as Chairman to the Board of Directors.

Headquartered in the Kingdom of Bahrain, IIRA commenced operations in 2005 and launched its series of conceptually distinctive methodologies, beginning 2011. IIRA believes that the strength of Islamic finance lies in its commitment to fairness. This renders the manner in which a transaction is carried out, as important as the transaction itself. IIRA's specialized focus on organizational governance and conduct of Shari'ah, augments the rating process, and incorporates the unique features of Islamic finance in a way that broadens the quality perspective.

RATING-AGENTUR EXPERT RA GMBH - GERMANY

Rating-Agentur Expert RA GmbH (trademark RAEX) is a business unit of International group «RAEX» in the European Union. The agency is operating since 2013 and its office is located in Frankfurt am Main (Germany).

The main aim of this credit rating agency is assigning credit ratings in accordance with the most stringent regulatory regimes and codes of ethics, which are in force in the European Union.

VISIT

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