

Habib Bank Limited

Chairman: Mr. Sultan Ali Allana; President: Mr. Nauman K. Dar

July 8, 2013

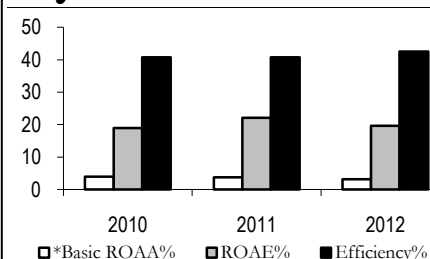
Analysts: Sobia Maqbool, CFA
Anum Irfan

Rating Rationale

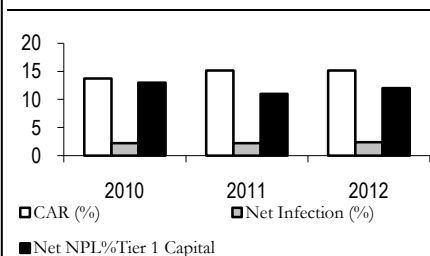
Category	Latest	Previous
Entity	AAA/A-1+ June 28, '13	AAA/A-1+ Sept 25, '12
Outlook	Stable June 28, '13	Stable Sept 25, '12

With sustained internal capital generation, capitalization level of Habib Bank Limited (HBL) has remained strong. The bank also enjoys a strong liquidity profile. Growth momentum in deposit mobilization by HBL continued during the out-going year as the bank crossed Rs. 1tr mark by end-Dec'12. With growth in domestic deposit base surpassing that of the industry, the bank has been able to achieve the largest share in domestic deposits. Even though concentration in depositor profile has increased on a timeline basis on account of acquisition of large ticket deposits, sizeable liquid reserves mitigate the concentration risk. With growth in deposits for 2013 envisaged to be slower compared to prior years, deposit mobilization activities will be focused on achieving greater cost-efficiency. Sound capitalization of the bank provides cushion to absorb downside risks emanating from financing and investments portfolios. Net NPLs to Tier-1 capital stood at 12% (FY11: 11%).

Key Financial Trends



* Based on recurring profit before provision and taxation



	2010	2011	2012
Total Assets (Rs. in b)	887.1	1,063.9	1,517.8
Net Advances (Rs. in b)	435.0	416.3	460.1
Deposits (Rs.b)	721.1	875.3	1,141.2
Market Share	12.6%	13.5%	15.6%
Deposit Cost (%)	4.6%	4.8%	5.1%
Profit (Rs.in b)	15.6	20.7	21.6
Net Worth (Rs. in b)	89.5	101.5	122.6
CAR (%)	13.7%	15.2%	15.1%
Liquid Assets % Deposits & Borrowings	41%	61%	67%
Net Infection (%)	2.2%	2.2%	2.4%

Growth in lending portfolio of the bank during FY12 is largely led by the domestic portfolio. Overseas loan book comprises about one-fifth of the total loan book; the bank is selectively looking to enhance its overseas operations, particularly in the UAE market. Diversification benefits arising from overseas operations depend on the market correlations in which the bank operates. Overall NPLs of the bank were higher at Rs. 69b (FY11: Rs. 65b) and net infection has increased slightly to 2.4%. During the on-going year, the bank has set up a new function in order to manage the classified portfolio, regular portfolio under watch-list along with complex relationships that require specialized management. An experienced resource has been hired for the purpose.

In line with trend observed at other large banks, growth in domestic portfolio of HBL is largely a result of increase in lending to public sector; gross advances to the same increased to Rs. 107.6b (FY11: Rs. 73.4b), representing 21% (FY11: 16%) of total gross advances. Given the unresolved issue of circular debt, growth in public sector exposures is largely on account of power sector loans. Going forward, the bank may disburse additional funds to the sector. Delays in repayment by public sector entities have exposed the banking sector to economic losses. Consumer portfolio of the bank increased to Rs. 16b (FY11: Rs. 13b) by end-FY12. The bank plans to expand the portfolio further. With sound underwriting criteria, infection in the portfolio is within manageable levels.

On the investment front, HBL's strategy entails a conservative approach with around 92% of total portfolio deployed in PKR denominated government securities. Downside risk emanating from the investment portfolio of the bank is considered manageable in relation to bank's own equity.

With recoveries against non-performing loans witnessed in the Middle East region, overall performance of overseas operations depicted improvement on timeline basis. Overseas assets represented 12.6% (FY11: 13.4%) of the total asset base at end-FY12 and contributed 7.6% (FY11: 2.2%) to the overall profitability of the bank. Mark-up spreads of the bank have declined in 1Q13 and further compression may be expected in 2013 given the recent cut in discount rate. Overall profitability of HBL is expected to be supported by balance sheet growth as well as through efficiency in operations, provided asset quality is maintained. Given the size of the bank's operations, there is room to enhance fee based income. Management's initiatives in the areas of cash management services & branchless banking operations may facilitate in enhancing fee based income.

Overview of the Institution

HBL is the largest bank in Pakistan in terms of deposit size with an extensive network of 1,540 branches and overseas presence through subsidiaries & associates. The Agha Khan Fund for Economic Development holds 51% shares of the bank. The financial statements for FY12 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder **JCR-VIS**