July 07, 2014

Habib Bank Limited

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

Analysts: Amir Shafique
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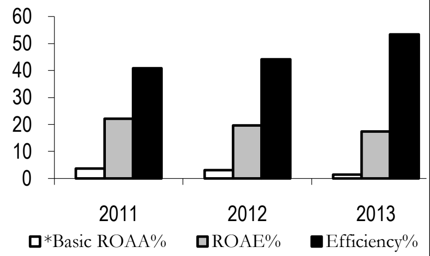
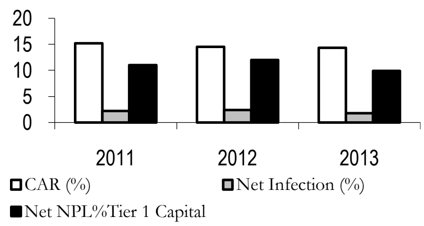
Category	Latest	Previous
Entity	AAA/A-1+	AAA/A-1+
	June 30, '14	*June 28, '13*
Outlook	Stable	Stable
	June 30, '14	*June 28, '13*

Key Financial Trends



** Based on recurring profit before provision and taxation*



	2011	2012	2013
Total Assets (Rs. in b)	1,064	1,518	1,613
Net Advances (Rs. in b)	416	460	524
Deposits (Rs.b)	875	1,141	1,317
Market Share	13.5%	15.6%	15.7%
Deposit Cost (%)	4.8%	5.1%	4.7%
Profit (Rs.in b)	20.7	22.0	21.9
Net Worth (Rs. in b)	102	122	129
CAR (%)	15.2%	14.5%	14.3%
Liquid Assets % Deposits & Borrowings	61%	67%	67%
Net Infection (%)	2.2%	2.4%	1.8%

Rating Rationale

Habib Bank Limited (HBL) is the largest commercial bank in Pakistan having widespread market presence across the country in addition to which the bank also operates in some overseas markets through branch operations or locally incorporated entities. Strong franchise of the bank is manifested in its market share of 15.7% in domestic deposits as at December 31, 2013. The bank's extensive outreach and strong retail base remain its key strengths. Moreover, the bank's robust capitalization reassures the protection available to depositors. Declining level of net non-performing assets also bodes well for the bank's risk profile.

In 2013, the bank maintained its growth momentum in deposits while at the same time achieving meaningful improvement in the deposit mix. In line with the management strategy envisioned at the beginning of 2013, the proportion of current accounts was enhanced to 29% (FY12: 25%) while fixed deposits were curtailed at 25% (FY12: 32%), thereby having a favorable impact on deposit cost, which declined to 4.7% (FY12: 5.1%). Deposits have declined to Rs. 1.2tr in 1Q14, though deposit mix has experienced further improvement. While retaining focus on the quality of deposits, the bank plans to pursue aggressive growth target in the on-going year.

In line with sector trends, pace of lending in case of domestic operations has not been at par with growth in deposits. Resultantly, the net advances to deposit ratio in case of domestic operations has declined over time to 37%. Given that return on savings deposits has been pegged to market benchmark rate and yields on government paper have come down, banks may be inclined to pursue growth in lending activities, going forward. Pace of private sector credit off-take has picked pace in first nine months of fiscal year 2014. As the largest bank in the country having the necessary resources and a well developed risk infrastructure, HBL is well positioned to take advantage of growth opportunities in the market. Almost one-fifth of the bank's loan book comprises lending to public/government entities; further exposure may be built in case of up-coming infrastructural development projects in the country. Exposure in energy/oil/gas sector is sizeable at almost one-fourth of the loan book. Going forward, the bank intends to meaningfully enhance the proportion of consumer financing that may yield better margins in comparison to corporate lending.

Overseas loan portfolio depicted notable increase in 2013, where impetus was mainly provided by UAE operations. Economic activity has picked up pace in the region and the management's stance is positive for the UAE. Overseas operations provide diversity to the bank's risk profile; benefits arising from the same would continue to depend on correlations in the markets in which the bank operates. The bank's reporting currency is the Pak Rupee; given international operations, its assets, liabilities, income and expenses are denominated in multiple currencies. In the back-drop of local currency devaluation, credit risk may also translate into market risk on books; leveraged positions in overseas operations may enhance this risk, if support is required to be extended from Head Office to make good any credit losses. Continued monitoring of country wise risk level is required to manage the overall balance sheet risk. About 38% of the bank's capital is employed overseas whereas 14% of total assets pertain to overseas operations.

Almost 49% of the bank's balance sheet has been deployed in investments, including the bank's strategic holding in various financial sector entities, local and abroad. Credit and market risk arising from the investment portfolio is considered manageable in context of the bank's loss absorption capacity. There is an independent resource to oversee the bank's strategic investments; strategic investments have largely posted profitable operations in 2013.

Despite spread compression, profitability of HBL remained strong. The impact of pressure on spreads is proposed to be mitigated by continued balance sheet growth. Various other initiatives such as cost controls, growth in high yielding assets and enhanced focus on fee based income are also being pursued to grow the bottom line.

Overview of the Institution

HBL is the largest bank in Pakistan in terms of deposit size with an extensive network of 1,594 local and overseas branches along with foreign subsidiaries & associates. The Agha Khan Fund for Economic Development holds 51% shares of the bank. The financial statements for FY13 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder JCR-VIS

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