Habib Bank Limited

RATING REPORT

REPORT DATE:
July 5, 2017

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity Rating	AAA	A-1+	AAA	A-1+
TFC	AAA		AAA	
Outlook	Stable		Stable	
Date	*June 30, '17*		*June 30, '16*	

COMPANY INFORMATION

Established in 1941	External auditors: **A. F. Ferguson & Co. Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. Sultan Ali Allana**
Key Shareholders (with stake 5% or more):	President & CEO: **Mr. Nauman K. Dar**
Aga Khan Fund for Economic Development – 51.00%	
CDC Group PLC– 5.00%	

APPLICABLE METHODOLOGY(IES)

Commercial Banks (November 2015): http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf

Habib Bank Limited

OVERVIEW OF THE INSTITUTION

Habib Bank Limited (HBL) was established as a privately held bank in 1941. Currently the bank operates as a public limited company with majority shareholding held by Aga Khan Fund for Economic Development (AKFED).

HBL operates out of 1,677 domestic branches (2015: 1,663) including 45 (2015: 44) Islamic banking branches, whereas the bank has 54 branches (2015: 53) outside Pakistan including Karachi Export Processing Zone (KEPZ). HBL operates in 25 countries, through branches, representative offices, and subsidiaries in UK and Hong Kong.

Profile of Chairman

Mr. Sultan Ali Allana serves as the Chairman of the Board. Mr. Allana is a career banking professional with over 32 years of experience in retail, corporate and investment banking. He is a Director of AKFED and has oversight responsibility for AKFED's investments in Banking, Insurance, and Aviation..

Profile of CEO

Mr. Nauman K. Dar's experience spans over three decades. Mr. Dar has been affiliated with the bank since 2003 and has headed various key functions including Corporate & Investment and International banking

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RATING RATIONALE

Habib Bank Limited (HBL) is the largest commercial bank in the country (market share of 14.1% in domestic deposits) with strong domestic operations and franchise and systemic importance to the domestic financial sector. The bank through its subsidiaries and associates has a presence in the insurance (Jubilee Life and Jubilee General), Asset Management Limited (HBL AML) and Microfinance sectors as well. During 2016, HBL acquired 50.5% stake in The First MicroFinanceBank Limited (FMFB) as part of the bank's long term objective of accelerating financial inclusion. HBL also has sizeable presence outside Pakistan with 13.4% of the total assets of the bank deployed overseas. For overseas operations, a revised governance structure has now been put in place which allows greater oversight from the Head Office while consolidation in non-core markets is also planned. The bank opened its first branch in Urumqi in 1Q17; Urumqi is a growing commercial and trade center and the regional hub for the Belt and Road Initiative in Central Asia. During 2016, the bank has taken meaningful strides towards innovation, financial inclusion and further strengthening and upgrading IT infrastructure.

Broad based growth in financing portfolio was witnessed in 2016 with all key segments (Corporate, Consumer, SME and Agriculture) posting double digit growth. Over the next few years, a significant portion of the growth in advances is targeted through high yielding consumer, agriculture and SME segments while CPEC driven power and infrastructure projects are expected to drive growth in corporate portfolio. Given the bank's China linkages, HBL is well positioned in this regard. Asset quality indicators of the domestic advances portfolio continued to improve in 2016 while infection in overseas portfolio increased. Enhanced due diligence, shift in customer & product mix towards trade based assets and focus on recoveries is being pursued on the overseas front.

Given the increase in PIB holdings and higher duration of PIB portfolio (2016: 2.43 years; 2015: 2 years), market risk exposure has increased on a timeline basis. Maximum exposure in PIBs is governed by various risk related limits in place, including restriction on maximum permissible equity erosion arising from adverse market movements. Proactive market risk management is considered important in case of increase in interest rates.

Liquidity profile of the bank is strong as evident from sizeable, cost effective & granular deposit base and significant liquid assets carried on the balance sheet. The bank continues to outpace peers in terms of new to bank relationships and quantum of current account growth resulting in a competitive edge and profitability advantage for HBL. As a medium term strategic goal and as part of HBL's financial inclusion initiative, the bank aims to leverage technology to significantly accelerate customer acquisition..

The equity base of the bank has consistently grown over the years with rate of internal capital generation averaging 10.7% over the last 5 years. However, rate of internal capital generation at 7.6% (2015: 10.9%; 2014: 11.2%) during 2016 was lower vis-à-vis preceding years. Tier-1 and overall CAR of the Bank remain commensurate with the assigned ratings albeit declining slightly on a timeline basis. In the backdrop of increasing regulatory requirement, HBL's strong buffer over regulatory CAR is considered important.

Revenue streams of the Bank are diversified with growth in fees & commissions supported by higher remittances (15% growth), increased bancassurance commissions & service charges, growth in investment banking fees and increase in consumer loans related commissions. However, commission on trade business declined in line with lower trade volumes (10% decline) handled by the bank. Despite significantly lower capital gains and pressure on banking spreads, decline in operating profit and profit before tax during 2016 was limited to 5.8% and 9%, respectively. However, cost to recurring income ratio has increased in 2016 vis-à-vis 2015. In the backdrop of forecasted mid-term economic scenario and policy rate regime along with maturity of PIBs and low lending rates due to excess liquidity, spreads and profitability growth of the banking sector are expected to remain under pressure during 2017

Habib Bank Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Total Investments	1,304.7	1,236.4	897.6
Advances	712.1	605.6	560.1
Total Assets	2,393.8	2,124.90	1,769.20
Borrowings	335.1	314.5	99.6
Deposits & other accounts	1,793.4	1,558.30	1,447.20
Subordinated Loans	9.998	10.000	-
Tier-1 Equity	135.9	125.6	117.4
Net Worth	182.1	171.9	157.9
INCOME STATEMENT	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Net Mark-up Income	79.3	76.8	67.2
Net Provisioning	0.7	4.3	0.5
Non-Markup Income	25.5	32.3	19.6
Operating Expenses	50.5	45.7	38.3
Profit Before Tax	52.2	57.4	46.9
Profit After Tax	31.8	35.5	31.1
RATIO ANALYSIS	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Market Share (Advances) (%)	11.2%	10.7%	10.1%
Market Share (Deposits) (%)	14.1%	14.1%	14.9%
Gross Infection (%)	8.8%	10.3%	11.1%
Provisioning Coverage (%)	93.0%	92.3%	88.8%
Net Infection (%)	1.1%	1.3%	1.8%
Cost of deposits (%)	2.5%	3.2%	4.4%
Net NPLs to Tier-1 Capital including general provisioning (%)	5.8%	6.4%	8.4%
Capital Adequacy Ratio (C.A.R (%))	15.3%	15.9%	15.1%
Markup Spreads (%)	4.3%	4.6%	4.0%
Efficiency (%)	50.9%	46.9%	45.4%
ROAA (%)	1.4%	1.8%	1.9%
ROAE (%)	20.6%	24.9%	24.4%
Liquid Assets to Deposits & Borrowings (%)	68.6%	70.2%	68.4%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

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

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

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

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

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

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

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

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

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

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

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

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

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

C
Capacity for timely payment of obligations is doubtful.

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

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

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

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

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

REGULATORY DISCLOSURES — Appendix III

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-Jun-17	AAA	A-1+	Stable	Reaffirmed
30-Jun-16	AAA	A-1+	Stable	Reaffirmed
30-Jun-15	AAA	A-1+	Stable	Reaffirmed
30-Jun-14	AAA	A-1+	Stable	Reaffirmed
28-Jun-13	AAA	A-1+	Stable	Reaffirmed
26-Jun-12	AAA	A-1+	Stable	Upgrade
29-Jun-12	AA+	A-1+	Stable	Reaffirmed
13-Jun-11	AA+	A-1+	Stable	Reaffirmed
29-Jun-10	AA+	A-1+	Stable	Reaffirmed

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

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