RATING REPORT

Habib Bank Limited

REPORT DATE:
June 28, 2024

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity Rating	AAA	A-1+	AAA	A-1+
Outlook/ Rating Watch	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Date	*June 28, 2024*		*June 27, 2023*	
TFC-2 (ADT-1)	AA+		AA+	
Date	*June 28, 2024*		*June 27, 2023*	
TFC-3 (ADT-1)	AA+		AA+	
Date	*June 28, 2024*		*June 27, 2023*	

COMPANY INFORMATION	
Established in 1941	**External auditors:** KPMG Taseer Hadi & Co.
Listed Public Limited Company	**Chairman of the Board:** Mr. Sultan Ali Allana
Key Shareholders (with stake more than 5%):	**President & CEO:** Mr. Muhammad Nassir Salim
Aga Khan Fund for Economic Development – 56.58%	

APPLICABLE METHODOLOGY
Financial Institution https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf
VIS Rating Scale https://docs.vis.com.pk/docs/VISRatingScales.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 the Aga Khan Fund for Economic Development (AKFED).

Profile of Chairman

Mr. Sultan Ali Allana has served as the Chairman of the Board of Directors of HBL since February 2004. He has over 39 years of experience in the financial and banking sector. Mr. Allana also serves on the Boards of several institutions.

Profile of CEO

Mr. Muhammad Nassir Salim joined HBL on December 18, 2017 as Head Global Operations and holds a BBA (Hons) and an MBA degree from the Institute of Business Administration, Karachi. He possesses an overall experience of 36 years in both domestic and international markets. He started his career from American Express Bank and has worked with Citi in Pakistan and the USA in senior roles. Prior to joining HBL, he was Retail Operations Head at Abu Dhabi Islamic Bank. In April 2021, he assumed the position of Head Branch Banking and based on his

RATING RATIONALE

Banking Sector

The banking sector in Pakistan has been navigating a challenging macroeconomic landscape. Despite facing headwinds such as high inflation, elevated interest rates, and geopolitical uncertainties, the sector has demonstrated resilience and adaptability and has supported economic stability.

One of the important factors contributing to the sector's resilience is strong capitalization and liquidity. Banks in Pakistan remain well-capitalized, with an industry-wide CAR of 19.7%. This ensures that banks are equipped to absorb potential shocks and maintain financial stability. Moreover, profitability metrics remain healthy, with a return on equity (ROE) of 27.1% based on CY-23 results, underscoring the sector's ability to generate sustained returns amidst challenging operating conditions.

The government's successful negotiation of the IMF's Stand-By Arrangement (SBA) program, culminating in a Staff-Level Agreement and disbursement of funds, has provided additional support to market confidence and exchange rate stability, with positive implications for the banking sector. In terms of monetary policy dynamics, the State Bank of Pakistan (SBP) has maintained a cautious stance, balancing the imperative of containing inflationary pressures with supporting economic growth. Even as headline inflation has moderated from peak levels, it remains elevated; despite having a real positive interest rate environment for some time, the SBP has only reduced the policy rate by 150 bps to 20.5% in its latest monetary policy statement. This stance reflects the central bank's commitment to anchoring inflation expectations and safeguarding macroeconomic stability.

Looking ahead, the banking sector faces both challenges and opportunities. Continued vigilance in managing credit quality and liquidity risks will be vital, especially amidst evolving macroeconomic dynamics and policy uncertainties. Moreover, the sector's role in supporting the government's reform agenda, particularly in areas such as taxation, energy, and privatization of state-owned enterprises, will be critical in fostering sustainable economic growth and financial stability.

Rating Drivers:

The rating assigned takes into account HBL's position in Pakistan's banking sector, its systemic significance, and the diversity of its operations.

Habib Bank Limited (HBL) maintains its position as the leading commercial bank in the country, holding the largest market share in deposits. HBL enjoys a strong franchise with systemic importance to Pakistan's financial sector. The Bank, through its subsidiaries and associates has a presence in the Insurance (Jubilee Life and Jubilee General), Asset Management (HBL AMC), *outstanding track record, was elevated to the role of Chief Operating Officer and then as President/ CEO in March 2024.*

Exchange company (HBL Currency Exchange) and Microfinance (HBL Microfinance Bank) sectors as well.

Asset Mix

In 2023, HBL increased its asset base, funded by a parallel rise in deposits. The primary reflection of growth was in the Bank's investment holdings, which absorbed most of the new liquidity generated, as the credit demand in the country slowed down because of economic conditions. Since Sep'22, HBL's share of the domestic deposit market has remained in the 12.5% to 13% range, down from its historical peak of ~14%, as the Bank consciously reduced its reliance on hot deposits, focusing on sustainable growth through CASA. By Mar'24, the asset base saw a slight reduction due to a runoff of repo borrowings, even as deposits continued to grow.

Gross advances grew modestly in 2023, aligning closely with industry trends, which led to a reduction in the Gross Advances to Deposits Ratio (ADR). Despite this, the Bank's Liquid Assets to Deposits and Borrowings (LADB) ratio improved, indicating strategic allocation of surplus funds. The first quarter of 2024 saw a decline in gross advances, highlighting a prudent approach to lending amidst a high interest rate environment.

Credit Risk

Corporate financing continued to dominate the advances portfolio. Reported Non-Performing Loans (NPLs) increased as of Dec'23, reflecting challenging economic conditions and new non-performance primarily large industry-wide names emerging from the corporate portfolio. Nevertheless, overall credit risk remained contained, with larger exposures primarily consisting of public sector entities and well-established private companies. Moreover, the Bank transitioned to IFRS-9 at the beginning of 2024. Expected Credit Losses arrived at, have been set aside, beefing up reserves held against potential future losses. As such, the Bank maintained strong provisioning coverage and a low net infection rate. Going forward, the Bank will continue to lend to and support its customers, following a prudent lending approach.

Investments

HBL's investment portfolio is characterized by a very low risk profile, with the majority comprising sovereign issuances. Floating rate Pakistan Investment Bonds (PIBs) dominated the investment portfolio, offering protection against market risks with the weighted average duration of the PIBs portfolio being less than a year.

The Bank recorded Mark-to-Market (MTM) losses due to a steep rise in interest rates in the first quarter of 2023; however, the situation has improved significantly since then. With interest rates expected to decrease going forward, the Bank plans to increase duration by increasing investments in fixed-rate PIBs, aiming to protect yields in a lower interest rate environment.

Liquidity

HBL experienced significant deposit growth in 2023 and the first quarter of 2024, driven by an increase in savings deposits. Despite a decline in market share of domestic deposits, as a result of a deliberate strategy, the Bank's access to low-cost funding sources remained strong. A diversified deposit base and no single depositor exceeding 2% of total deposits, underscored the Bank's strong market access. The Bank maintained ample liquid reserves relative to its deposits and borrowings, reflected in strong liquidity coverage ratios. Strategic plans to increase current and savings accounts aim to further strengthen the deposit base.

Profitability

Monetary tightening measures by the State Bank of Pakistan (SBP) in 2023 resulted in elevated benchmark rates, leading to higher yields on earning assets and increased costs of funding. This expanded the net interest margin (NIM) and resulted in a significant rise in net markup income. Non-markup income also increased, driven by higher fee and commission income, despite a reduction in foreign exchange income.

Non-markup expenses rose due to inflationary impacts, with the Bank's efficiency ratio, while showing improvement over the year has remained the highest among large banks. Provisioning charges increased, reflecting a higher risk environment, mostly in the domestic corporate sector. Profit before provisions and taxes (PBPT) saw a substantial increase, driven by gains from both spread and non-spread income.

The short to medium term outlook for HBL's profitability appears optimistic with gains expected in both markup and non-markup income and lower expectations for inflation. Additionally, as policy rate trends down, the sizable holdings of PIB portfolio should result in MTM surpluses and realized gains in the trading and investment portfolios, which should bolster profitability and capital buffers. This assumes that there is no significant change in the credit risk of the loan portfolio.

Capitalization

After a period of decline, HBL's Capital Adequacy Ratio (CAR) rebounded with increase in eligible capital due to higher retained earnings and revaluation reserves, boosting both Tier 1 and Tier 2 capital. The quality of capital remained sound, with Tier 1 equity comprising a significant portion of eligible capital.

The Bank is expected to continue to maintain its capital ratios well above regulatory requirements in the foreseeable future with its expected increase in internal capital generation offsetting higher risk weighted assets. The outlook for profitability appears optimistic, with anticipated improvements in net interest margins and non-interest income bolstering capital buffers.

Habib Bank Limited

FINANCIAL SUMMARY (amounts in PKR millions) **Appendix I**

BALANCE SHEET	**Dec'22**	**Dec'23**	**Mar'24**
Total Investments	1,882,075	2,499,930	2,547,830
Gross Advances	1,709,421	1,760,301	1,674,647
Net Advances	1,622,607	1,664,016	1,558,481
Total Assets	4,355,097	5,201,671	5,136,308
Borrowings	579,005	659,343	328,661
Deposits & other accounts	3,234,176	3,870,180	4,104,637
Subordinated Loans	18,874	18,874	18,874
Tier-1 Equity	219,266	259,753	268,992
Paid Up Capital	14,669	14,669	14,669
Net Shareholder Equity (excl. surplus revaluation)	251,791	307,400	306,480
INCOME STATEMENT	**2022**	**2023**	**Q1'24**
Net Spread Earned	152,137	223,395	55,859
Net Provisioning / (Reversal)	6,456	10,635	2,039
Non-Markup Income	38,256	53,902	18,169
Operating expenses	110,475	152,339	42,297
Profit/ (Loss) Before Tax	71,555	111,737	29,692
Profit / (Loss) After Tax	30,867	56,856	14,595
RATIO ANALYSIS	**Dec'22**	**Dec'23**	**Mar'24**
Market Share (Domestic Advances)	12.3%	11.9%	11.7%
Market Share (Domestic Deposits)	13.0%	12.4%	NA
Non-Performing Loans (NPLs)	84,775	94,272	95,346
Gross Infection	5.0%	5.4%	5.7%
Total Provisioning Coverage (incl. general prov.)	102.4%	102.1%	121.8%
Net Infection	0.6%	0.8%	0.9%
Cost of deposits	5.7%	9.4%	11.2%*
Gross Advances to Deposits Ratio***	47.6%	41.1%	36.9%
Net NPLs to Tier-1 Capital (adj. for general prov.)	4.4%	5.1%	4.6%
Tier 1 CAR	12.8%	13.4%	13.5%
Capital Adequacy Ratio (CAR)	15.0%	17.3%	17.5%
NIM	4.4%	6.1%	6.2%*
Efficiency	57.7%	56.8%	57.8%
Liquid Coverage Ratio (LCR)	254%	271%	261%
Net Stable Funding Ratio (NSFR)	149%	160%	167%
ROAA	0.7%	1.2%	1.1%*
ROAE *(Net Shareholder Equity)*	12.7%	20.3%	19.0%*
Liquid Assets to Deposits & Borrowings	56.8%	63.4%	67.1%

**Annualized*

****Adjusted for SBP refinancing schemes*

REGULATORY DISCLOSURES	Appendix II
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	Outlook/ Rating Watch	Rating Action
RATING TYPE: ENTITY				
28-Jun-24	AAA	A-1+	Stable	Reaffirmed
27-Jun-23	AAA	A-1+	Stable	Reaffirmed
29-Jun-22	AAA	A-1+	Stable	Reaffirmed
30-Jun-21	AAA	A-1+	Stable	Reaffirmed
30-Jun-20	AAA	A-1+	Stable	Reaffirmed
28-Jun-19	AAA	A-1+	Stable	Reaffirmed
31-Dec-18	AAA	A-1+	Stable	Maintained
29-June-18	AAA	A-1+	Negative	Reaffirmed
22-Sep-17	AAA	A-1+	Negative	Maintained
30-June-17	AAA	A-1+	Stable	Reaffirmed
30-June-16	AAA	A-1+	Stable	Reaffirmed
30-June-15	AAA	A-1+	Stable	Reaffirmed
30-June-14	AAA	A-1+	Stable	Reaffirmed
28-June-13	AAA	A-1+	Stable	Reaffirmed
26-June-12	AAA	A-1+	Stable	Upgrade
29-June-12	AA+	A-1+	Stable	Reaffirmed
13-June-11	AA+	A-1+	Stable	Reaffirmed
29-June-10	AA+	A-1+	Stable	Reaffirmed

Rating Date	Medium to Long Term	Outlook/ Rating Watch	Rating Action
RATING TYPE: TFC-2 (ADT-1)			
28-Jun-24	AA+	Stable	Reaffirmed
27-Jun-23	AA+	Stable	Reaffirmed
29-Jun-22	AA+	Stable	Reaffirmed
30-Jun-21	AA+	Stable	Reaffirmed
30-Jun-20	AA+	Stable	Reaffirmed
28-Jun-19	AA+	Stable	Final
31-Dec-18	AA+	Stable	Preliminary

Rating Date	Medium to Long Term	Outlook/ Rating Watch	Rating Action
RATING TYPE: TFC-3 (ADT-1)			
28-Jun-24	AA+	Stable	Reaffirmed
27-Jun-23	AA+	Stable	Reaffirmed
15-Dec-22	AA+	Stable	Final
04-Oct-22	AA+	Stable	Preliminary

Instrument Structure	Privately placed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible Additional Tier-I (ADT-1) TFC amounting Rs. 12.4b.

(Tier 1)	
Instrument Structure (Tier 1)	Privately placed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible Additional Tier-I (ADT-1) TFC amounting Rs. 6.5b.
Statement by the Rating Team	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.
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Due Diligence Meetings Conducted	

	Name	Designation	Date
1	Mr. Aamir Irshad	Head Corporate, Commercial & Investment Banking	**23-May-2024**
2	Mr. Tariq Masaud	Chief Risk Officer	
3	Mr. Imran Ahmed	Head Financial Reporting	
4	Mr. Muhammad Jamal Chughtai	Manager Credit & Operational Risk	