Habib Bank Limited

RATING REPORT

REPORT DATE:
July 3, 2015

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+
TFC *Preliminary	AAA*		-	
Outlook	Stable		Stable	
Date	*June 30, '15*		*June 30, '14*	

COMPANY INFORMATION

Established in 1941	External auditors: **Ernst & Young Ford Rhodes Sidat Hyder 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**
Agha Khan Fund for Economic Development – 51.00%	
Commonwealth Development Corporation – 5.00%	

APPLICABLE METHODOLOGY(IES)

PRIMER - Commercial Banks (December 2001): *http://jcrvis.com.pk/images/primercb.pdf*
Rating the Issue (September 2014): http://www.jcrvis.com.pk/Images/criteria_instrument.pdf

Habib Bank Limited

OVERVIEW OF THE INSTITUTION

HBL is the largest bank in Pakistan in terms of deposit size with an extensive network of 1,644 local and overseas branches along with foreign subsidiaries & associates.

RATING RATIONALE

The assigned ratings reflect the systemic importance of Habib Bank Limited (HBL) in the domestic financial sector as the largest commercial bank in the country, having a market share of 15.1% in domestic deposits at end 2014. The bank's extensive outreach and continued focus on growth allowed it to capture around half of the new bank accounts opened in the banking sector during 2014. Moreover, the deposit mix has showcased notable improvement with sizeable growth in the proportion of non-remunerative deposits (34% of total deposits at end 2014 vis-à-vis 25% at end 2012) and further reduction in deposit concentration and cost. Besides a granular deposit mix, the liquidity profile is also supported by sizeable liquid assets carried on the balance sheet. Ratings also incorporate HBL's healthy capitalization levels, robust profitability & asset quality indicators and a sound governance infrastructure. The senior management team has largely depicted stability which bodes well for continuity in implementation of the business strategy laid down for the bank.

While entailing additional challenges from a risk management perspective, the overseas operations have allowed the bank to diversify country specific risks to an extent, with almost 16% of the resource base deployed overseas and contributing 10% to pre-tax profits. Diversification benefits arising from the same will continue to depend on correlation amongst markets in which the bank operates. The largest of overseas exposures pertain to the branches in United Arab Emirates (UAE), where further growth has been observed in 2014.

The asset deployment strategy of the bank has remained conservative with over half of the asset base representing exposure to the sovereign/public sector entities. While corporate lending represents the major portion of HBL's financing portfolio, the bank is cautiously expanding its presence in other market segments, including commercial, agriculture, SME and consumer; increasing breadth in lending operations is considered positively. Moreover, in the outgoing year Islamic banking operations have also gained traction in this rapidly growing market segment.

In 2014, PIB holdings of the banking sector grew to Rs. 2.66tr, 3.6x higher than Dec'13 level, in the backdrop of high yield being offered on the same and in anticipation of decline in interest rates. In contrast to peer banks, HBL has the lowest proportion of PIBs in relation to total deposits and exposed to a greater degree of reinvestment risk; this is the most imminent risk to the bank's profitability in the backdrop of a declining interest rate environment.

The banking sector has posted strong growth in profitability in 2014. With an increase in PIB holdings and linking of deposit rates on savings products to the repo rate, the banking sector may be able to sustain the impact of declining interest rates over the near to medium term. However, if the low interest rate environment persists over the long term, spreads and profitability are expected to come under pressure with maturity of PIBs, where average duration is mostly in the range of 2-3 years. With sizeable holding of T-bills, HBL's spreads may witness some pressure in the on-going year; however, management expects improving deposit mix and growth in earning assets to mitigate the impact of falling interest rates on the bank's profitability. Non-markup income has also increased at a steady pace over the years, with various initiatives in this area likely to enable the bank to maintain the momentum; this includes synergies with other group entities whereby HBL's large scale network is being used to market bancassurance products and a recently undertaken agreement to distribute mutual fund units.

Habib Bank Limited Appendix I

FINANCIAL SUMMARY			(amounts in PKR billions)
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Total Investments	897.573	794.985	777.185
Advances	555.394	523.858	460.070
Total Assets	1,769.196	1,612.657	1,518.006
Borrowings	99.630	105.289	192.116
Deposits & other accounts	1,447.215	1,316.990	1,141.164
Subordinated Loans	-	-	-
Tier-1 Equity	137.081	120.267	110.280
Net Worth	157.867	129.289	122.300
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Mark-up Income	67.430	53.436	56.075
Net Provisioning	0.734	1.044	5.228
Non-Markup Income	19.675	15.122	12.390
Operating Expenses	39.496	33.799	28.941
Profit Before Tax	46.874	33.715	34.296
Profit After Tax	31.112	21.910	22.000
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Market Share (Advances) (%)	13.8%	14.4%	13.0%
Market Share (Deposits) (%)	15.1%	15.6%	15.7%
Gross Infection (%)	11.1%	11.9%	13.3%
Provisioning Coverage (%)	88.8%	88.7%	87.0%
Net Infection (%)	1.8%	1.8%	2.4%
Cost of deposits (%)	4.4%	4.7%	5.1%
Net NPLs to Tier-1 Capital (%)	7.4%	8.0%	10.0%
Capital Adequacy Ratio (C.A.R (%))	15.1%	14.3%	14.5%
Markup Spreads (%)	4.7%	3.9%	5.6%
Efficiency (%)	46.3%	51.0%	43.2%
Basic ROAA (%)	2.6%	2.0%	2.8%
ROAA (%)	1.8%	1.4%	1.7%
ROAE (%)	21.7%	17.4%	19.3%
Liquid Assets to Deposits & Borrowings (%)	69.7%	68.1%	71.3%

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 Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
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-15	AAA	Stable	Preliminary

Instrument Structure	Unsecured subordinated TFCs amounting to Rs. 20b (inclusive of Green Shoe option of Rs. 5b). The TFCs will have 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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