

INVESTMENT STRENGTH,  
GOVERNANCE, ENVIRONMENT &  
SOCIAL (ISG-ES) GRADING REPORT



A joint product by

- VIS Credit Rating Company Limited;
- China Chengxin International Credit Rating Company Limited;
- Islamic International Rating Agency;
- Rating-Agentur Expert RA GmbH

# HABIB BANK LIMITED

**Report Date:** May 28, 2021  
**Analyst(s):** Mr. Aarsal Ayub, CFA (VIS)  
Lingxuan Du (CCXI)

**Company Status:** Listed on Pakistan Stock Exchange  
**External Auditors:** M/s A.F. Ferguson & Co.

**Major Shareholders (≥5%):**  
Aga Khan Foundation for Economic Development – 51.00%

**Chairman:** Mr. Sultan Ali Allana  
**CEO:** Mr. Muhammad Aurangzeb

**Branches:** 1,697 (Dec'2020)

**Head Office:** Karachi

## TABLE OF CONTENT

<b>Grading Rationale</b>	<b>01</b>
Investment Strength	01
Corporate Governance	01
Environmental Accountability	01
Social Responsibility	01
<b>Corporate Profile</b>	<b>02</b>
<b>Investment Strength</b>	<b>04</b>
Economic/ Business Risk	04
Industry Risk	06
Corporate Positioning	09
Financial Performance	11
<b>Corporate Governance</b>	<b>15</b>
Regulatory Supervision	15
Board Governance	15
Organizational Structure	16
Internal Control Infrastructure	16
<b>Environmental Accountability</b>	<b>19</b>
Regulatory Supervision	19
EA Infrastructure at HBL	19
Greenhouse Gas Emission	21
Water Conservation	21
Waste Management	21
Impact on Surroundings	21
<b>Social Responsibility</b>	<b>22</b>
Internal Stakeholders	22
External Stakeholders	23
<b>Shari'ah Governance</b>	<b>25</b>
<b>HBL Organizational Structure (Annexure A)</b>	<b>27</b>
<b>ISG-ES Scoring Framework</b>	<b>28</b>
<b>Profiles of Rating Committee Members</b>	<b>29</b>
<b>Profiles of Participating Rating Agencies</b>	<b>30</b>

## ISG-ES GRADING

<b>ISG-ES 1</b> Very Strong Investment Prospects
<b>ISG-ES 2</b> Strong Investment Prospects
<b>ISG-ES 3</b> Good Investment Prospects
<b>ISG-ES 4</b> Medium Investment Prospects
<b>ISG-ES 5</b> Weak Investment Prospects

The report also includes an independent assessment of Shari'ah Governance Infrastructure of HBL's Islamic Banking operations undertaken by IIRA. The disclosure is included as added information for investors, and has no bearing on the aggregate ISG-ES score of the bank.

Score: Strong (76-90)\*

Rating Scale is provided on page 30.

## GRADING RATIONALE

### INVESTMENT STRENGTH (IS)

- HBL's IS Grading has been assessed as 'Strong'. The Grading is supported by HBL's very strong corporate positioning in the domestic market, low risk dynamics of the banking industry, HBL's long-term financial performance and return generation potential for investors.
- The ratings are constrained by the moderately high business/ economic risk profile of Pakistan.

### CORPORATE GOVERNANCE (G)

- HBL's G Grading has been assessed as 'Strong'. The Grading takes into account a well-defined regulatory framework, strong institutional ownership and Board & Board Committee compositions, which are aligned with domestic regulations. As a listed bank, HBL's disclosures are superior to market norms, while recent changes in senior management have further reinforced management quality.
- Going forward, G Grading can benefit from further alignment of Board composition with global best practices. The grading is also affected by compliance issues faced by the Bank's overseas branches in the recent past.

### ENVIRONMENTAL ACCOUNTABILITY (E)

- HBL's E Grading has been assessed as 'Medium'. The assessment derives support from the regulator's proactive approach towards Green Banking and HBL's early adoption of regulations.
- Nevertheless, the Pakistani banking industry remains in the early stages of adopting Environmental Accountability, as the initiatives are so far limited to portfolio-related environmental risk assessment.
- Going forward, HBL may consider developing a road map for environmental impact reduction, which should be duly reported to stakeholders for enhanced transparency and accountability.

### SOCIAL RESPONSIBILITY (S)

- HBL's S Grading has been gauged as 'Strong'. Our assessment is supported by the presence of a pre-defined policy framework on gender balancing at the institution (employee) level and customer level, with pre-defined targets.
- The assessment also takes into account HBL's strong focus on human capital development, with training costs exceeding all peers. HBL's pre-defined policy on charitable donations, wherein 1% of profitability is passed onto the HBL Foundation is considered positively.

Investment Strength	Very Strong	Strong	Good	Medium	Low
• Business/ Economic Risk	Very Low	Low	Moderate	Medium	High
• Industry Risk	Very Low	Low	Moderate	Medium	High
• Corporate Positioning	Very Strong	Strong	Sound	Adequate	Weak
• Financial Performance	Very Strong	Strong	Sound	Adequate	Weak
Corporate Governance	Very Strong	Strong	Satisfactory	Adequate	Weak
Environmental Accountability	Very High	High	Good	Medium	Low
Social Responsibility	Very Strong	Strong	Sound	Adequate	Weak

## CORPORATE PROFILE

Given an asset base of roughly USD 24bn and topline revenue of USD 1.7bn for 2020, Habib Bank Limited ('HBL' or 'the Bank') can be classified as a large-sized banking institution in a Pakistan-specific context.

Founded in 1941, HBL was the first commercial bank in Pakistan. The Bank was nationalized in 1974, and later privatized in 2004. As part of the privatization exercise, the controlling shareholding in HBL was acquired by the Aga Khan Fund for Economic Development (AKFED).

Presently, HBL's branch network spans 16 countries (incl. Pakistan). The Bank operates 1,659 branches in Pakistan- including 62 Islamic banking branches and 38 overseas branches (incl. KEPZ).

HBL's overseas asset base constitutes about 10.4% of the Bank's asset base. The proportion has reduced from ~20% in 2014, given a strategic focus on consolidation and de-risking. The drop in proportion of international assets is in line with the Bank's strategic focus on markets, which provide the Bank with cross-sell opportunities and the Bank's domestic clientele access to locations of strategic trade and investment interest. In line with strategy, HBL has fully exited its business in Seychelles and Rotterdam and ceased banking operations in Afghanistan and Hong Kong where final closure processes and regulatory approvals are being completed.

The most notable change in international footprint materialized in 2020, when HBL surrendered its US branch license. Over 2018 – 2020, the Bank carried out a remediation and transformation program and underwent de-risking of all its international locations. As a result of the de-risking, rationalization of international operations and economic pressures in the Bank's main overseas markets of the GCC countries and the UK, the Bank's international operations have remained in a loss over the last few years.

The Bank renewed its focus in other regions such as Middle East, SAARC (Sri Lanka, Bangladesh & Maldives) and China. In 2017, HBL's branch in Urumqi (China) became operational, and in 2019, the branch received a license for commencing RMB operations, making HBL one of only 3 banks across South Asia, the Middle East and North Africa to offer end-to-end RMB intermediation. In December 2019, the China Banking and Insurance Regulatory Commission approved HBL's application for upgrading the Beijing Representative Office to a Branch, became

**Table 1: Key Financials<sup>1</sup> (PKR in Billions)**

	2017	2018	2019	2020	2021 <sup>P</sup>	2022 <sup>P</sup>
Investments	1,375	1,390	1,380	1,949	2,104	2,315
Net Advances	852	1,080	1,167	1,224	1,330	1,476
Total Assets	2,696	3,026	3,227	3,849	4,216	4,635
Deposits & other accounts	1,999	2,137	2,438	2,830	3,232	3,689
Equity	189	199	225	265	289	320
Net Spread Earned	82	82	101	130	143	158
Net Provisioning / (Reversal)	-	5	3	12	10	6
Non-Markup Income (net)	34	20	24	31	28	30
Overheads	62	75	93	95	101	111
Profit/ (Loss) Before Tax	29	22	29	53	59	71
Profit / (Loss) After Tax	9	12	15	31	39	47
Market Share - Advances*	11.4%	12.0%	12.2%	12.1%	12.3%	12.3%
Market Share – Deposits**	14.3%	14.10%	14.6%	14.1%	14.4%	14.4%
Gross Infection	8.2%	7.0%	6.6%	6.3%	7-8%	7-8%
Provisioning Coverage	87.6%	84.7%	88.7%	86.3%	>85%	>85%
Net Infection	1.1%	1.1%	0.8%	0.9%	1-2%	1-2%
Cost of deposits	2.4%	3.0%	5.0%	4.2%	4.4%	5.7%
Advances (net) to Deposits Ratio	42.6%	50.6%	47.9%	43.2%	41.2%	40.0%
Net NPLs to Capital***	5.8%	6.8%	4.7%	5.0%	~4-5%	~4-5%
Capital Adequacy Ratio (CAR)	15.96%	16.18%	15.35%	17.24%	>16%	>16%
Markup Spreads	3.8%	3.6%	4.2%	4.7%	4.4%	4.6%
Efficiency	57.0%	73.8%	72.4%	61.3%	59.4%	59.1%
ROAA	0.3%	0.4%	0.5%	0.9%	1.0%	1.1%
ROAE	4.6%	6.4%	7.3%	12.6%	14.0%	15.5%

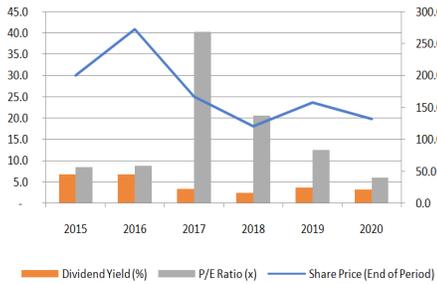
\*HBL Domestic Advances (gross)/ Industry Domestic Advances (gross) ( Source- SBP)  
\*\*HBL Domestic Deposits / Industry Domestic Deposits (Source- SBP)  
\*\*\*Excludes Revauation Reserve

<sup>1</sup> The projections contained herein reflect a number of estimates and subjective assumptions, and have been calculated by VIS.

**Table 2: Geographical Breakup of Assets**

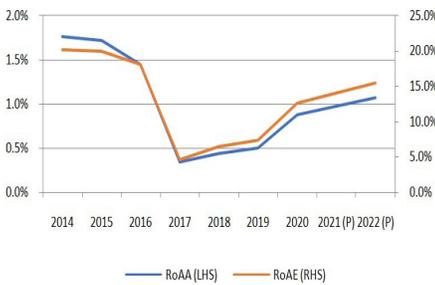
	Dec'20
Pakistan (incl. KEPZ)	89.6%
Middle East & Africa	4.6%
Asia	2.3%
Europe	3.5%
Source: HBL Financial Statements	

**Figure 1: HBL Share Performance**



Source: PSX

**Figure 2: HBL Profitability Metrics**



Source: HBL Financial Statements

operational in Q1'2021. Middle East operations are the mainstay for overseas operations, representing about half of the overseas assets.

A multi-year Business Transformation Program (BTP) was initiated in 2018, centered on four main areas, Governance, People, Process and Technology. Overall, the program sought to develop a robust compliance-based environment to make HBL the best-in-class in the markets in which it operates. So far, the domestic BTP has been fully completed while completion of international BTP is in progress with key locations (UAE, Bahrain and UK) already completed.

Besides domestic & international banking operations, HBL's holdings also include strategic investments of 18.52% in the largest private sector life insurance company (**Jubilee Life Insurance Company Limited**) and 19.80% in the 3rd largest general insurance company (**Jubilee General Insurance Company Limited**) of Pakistan. In addition, the Bank holds majority shareholding (50.51%) in the 2nd largest microfinance bank (**First Micro Finance Bank Limited**) and 100% shareholding of the 6th largest asset management company of Pakistan (**HBL Asset Management Limited**).

During the 3-year period (2014-2016), the Bank's return on assets and equity averaged 1.6% and 19.4% respectively, which was in line with the long-term profitability trend. However, given the settlement payment to NYSDFS in 2017, HBL's profitability metrics were impacted. The trend of low returns continued through the 2018-19 period, where volatility in exchange rate and remediation cost of New York operations continued to negatively impact profitability. As the remediation costs tapered off in 2020, and on the back of improved spreads — as liabilities re-priced faster than assets in a declining interest rate environment — HBL's net interest income posted noteworthy growth of 28%. Furthermore, the revenue base was also supported by capital gains on fixed income instruments, as a result of which total revenue hit a historic high of Rs. 160b, while bottom line also doubled for 2020 vis-à-vis 2019.

## INVESTMENT STRENGTH: **STRONG**

### Economic/ Business Risk: **Moderate**

The Economic/Business Risk assessment takes into account sovereign and country risk factors of the entity's country of operation. In addition, the business environment of the relevant industry is also considered, which may positively or negatively impact the overall economic/business risk assessment of the country. It is pertinent to mention that the business environment, herein, is reviewed from a country-risk specific context, as investment in each area/business sector features varying degrees of documentation, regulations & access to law.

The business/economic risk assessment contained herein takes insights from CCI, IIRA, RAEX & VIS Country Risk Assessment.

## PAKISTAN

### Sovereign Risk

- Economic Growth Cycle:** Having posted strong economic growth during the five-year period (FY14-18), averaging 5.3%, Pakistan's economy has subsequently been undergoing a slowdown, with FY19 growth falling to 3.3%. This was in line with the macroeconomic adjustments undertaken by the Government of Pakistan to arrest the burgeoning twin deficits. Akin to the world economy, the growth for FY20 has also been notably affected by the novel coronavirus outbreak. Going forward, growth is expected to remain depressed and lower than the long-term trend.
- Fiscal & External Risk:** Following sizable macroeconomic imbalances in FY18, the Government of Pakistan (GoP) entered a USD 6b Extended Fund Facility (EFF) program with IMF in FY19. In line with IMF pre-requisites, GoP had to undertake necessary structural adjustments, which has somewhat contained the external deficit. Nevertheless, given meager tax revenues, fiscal risk remains high; this is something that GoP plans to address by increasing tax revenues, through broadening the tax base, which is a medium to long term objective. Over the short to medium term, fiscal risk is expected to remain on the higher side. The external has declined in 9M FY21, with the successful launch of a USD 2.5bn Eurobond and the resumption of the EFF program which had been temporarily replaced by a Rapid Financing Instrument issued in April 2020 with the onset of the pandemic. The external risk is expected to rise moderately over the medium term.
- Financial Sector Risk:** The Financial Sector Risk for the country is considered medium, which takes into account the overall depth and stability of the system. This factor incorporates input from the financial sector scoring undertaken by the World Economic Forum in their publication Global Competitiveness Index 2019.
- Debt Risk:** Pakistan's total debt to GDP ratio stands on the higher side, while the debt sustainability is also a concern, given the quantum of foreign reserves. In view of the same, debt risk of the country is classified as 'High'.

### Country Risk

- Governance:** Governance score has improved in the last five years, albeit deficiencies continue to persist in areas of 'Government Effectiveness', 'Regulatory Quality' and 'Rule of Law'. The governance lags scores of regional peers. Pakistan also ranks adversely in the Corruption Perception Index at 124, which is lower than regional counterparts (India (86) & Sri Lanka (94)).

**Table 3: Macroeconomic Indicators**

	FY17	FY18	FY19	FY20
GDP Growth	5.2%	5.5%	3.3%	-0.4%
Inflation	4.2%	4.7%	6.8%	10.7%
Fiscal Deficit (% of GDP)	5.8%	6.5%	8.9%	8.1%
Current Account Deficit (% of GDP)	4.1%	6.3%	4.8%	1.1%
Total Debt to GDP	78.6	86.3	105.9	106.8
External Debt (% of GDP)	27.4	33.4	45.7	45.5
Gross Reserves (USD Billions)	16.1	9.8	7.3	12.1
PKR/USD (year-end)	104.9	121.5	160.1	168.1
Source: SBP FY represents Fiscal year, which is July-June for Pakistan				

**Table 4: Pakistan Rankings**

Global Competitiveness Index <sup>1</sup>	110 of 140 (2019)
Ease of Doing Business <sup>2</sup>	108 of 190 (2019)
Corruption Perception Index <sup>3</sup>	124 of 180 (2020)
<sup>1</sup> Source: World Economic Forum <sup>2</sup> Source: World Bank <sup>3</sup> Source: Transparency International	

- **Geo-strategic Risk:** The complicated relationship with bordering nations, such as India and Afghanistan, heightens the geo-strategic risk for Pakistan. Albeit, during the past decade, Pakistan & China have deepened their strategic partnership under 'China Pakistan Economic Corridor' (CPEC), which is part of China's 'One Belt One Road' Project.
- **Competitive Environment:** Although Pakistan's competitiveness rankings have improved considerably, from 129th position, in 2015, to 110th position in 2019, the country remains the lowest rated among its regional peers i.e. India, Sri Lanka & Bangladesh. Pakistan has shown notable improvement in World Bank's Ease of Doing Business index, with their ranking improving from 136 in 2019 to 108 in 2020.
- **Human Development:** The United Nations Development Program (UNDP) categorizes Pakistan amongst 'Medium' category of its Human Development Index. This is in line with regional peers.
- **Size & Potential of Domestic Market:** Pakistan scores high in this area, given its sizable population, size of GDP and trade flows. This factor incorporates input from the 'Market Size' scoring undertaken by the World Economic Forum in their publication Global Competitiveness Index 2019.

#### Business Environment (Banking)

- **Regulatory Environment & Support:** State Bank of Pakistan (SBP) is the apex regulator in the banking sector. In addition to being the banking regulator, SBP also holds the role of being the central bank of the country. The regulatory infrastructure for banking industry is well developed. In addition, there is no historical evidence of a complete banking default. There has only been a single instance of banking default in the last 20 years, of a small-sized bank, albeit the depositors were eventually paid under the aegis of the SBP. At present, all non-corporate deposits in the banking system, up to Rs. 250k (~USD 1500) per deposit, are covered by the Deposit Protection Corporation, launched by SBP in 2018.
- **Industry Competitiveness:** The banking industry is highly competitive, comprising 25 players. Even though, the larger-sized banks have dominated the industry for years, in terms of deposit market share and profitability, in recent years the medium-sized banks have started to gain market share and profitability. Overall, the industry has infrastructure in place for healthy competition to prosper.
- **Sovereign Linkage:** The consistent fiscal deficits translate into significant linkage between the sovereign and the banking sector for financing routine fiscal shortfalls. Over the next 5-year period, fiscal shortfall financing is expected to average Rs. 1tr per annum, as a result of which we expect this linkage to persist. This sovereign linkage can be considered a business model dependency; however, on other hand, the same also translates into sound liquidity and lower exposure to credit risk for the banks.

**Industry Risk: Low<sup>3</sup>**

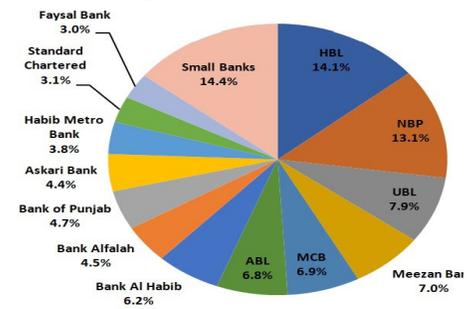
The Industry Risk assessment analyzes risk & return characteristics of the banking industry, which is then graded on pan-industry basis domestically.

The banking industry in Pakistan constitutes 25 commercial banks, which include 20 private banks and 5 public sector banks. The industry largely follows a branch-based banking model, wherein older banks with larger branch networks continue to hold the major share of the deposit market. In terms of size-based classification, the industry can be broken up into 6 large-sized banks, 7 medium-sized banks and 12 small-sized banks.

**Risk Categorization:** As per VIS' sector ranking criterion, the banking industry is classified as a 'Low Risk' industry.

- **Domestic Competition:** With 25 banks, there is significant competition in the industry. The large-sized banks (top 6) in the industry account for more than half (~55.9%) of the industry's deposit base, while medium-sized banks (7 banks) and small-sized banks (14 banks) comprise 29.7% and 14.4% of the industry deposits respectively.
- **Barriers to Entry:** The barriers to entry into the banking industry are gauged to be high on account of the following:
  - **Operational Complexity:** The highly regulated nature of the industry coupled with the operational complexity of running a banking institution requires every new entrant to have some level of operational expertise / knowledge of operating a bank. The banking regulator also imposes stringent requirements on new entrants, including strict 'fit & proper' criteria for major shareholders.
  - **Initial Cash Outlay:** The minimum capital outlay for starting a banking institution is set at Rs. 10bn. In addition, there are Capital Adequacy Ratio (CAR) requirements that need to be complied with, at all times,
- **Deposits Growth:** Banking industry deposits have grown at a CAGR of 13.9% during the past 5 year period (Dec'15-Dec'20). Growth rate remained in double digits till 2017, subsequent to which growth in deposits has averaged 8.8% during the two-year period Dec'17-Dec'19. The slowdown was mainly a result of the GoP-led tax documentation drive along with the prevailing macroeconomic slowdown. However, given the Covid-19 related lockdowns, deposits of the banking sector grew by 22% in 2020 as consumer spending took a hit. The overall size of the banking industry, in relation to the country's GDP, at 53%, remains on the lower side. Our long-term growth outlook on deposits is positive; this takes into account the low level of financial inclusion in the country, as depicted in table 5, which is indicative of significant room for growth.
- **Credit Operations:** The industry's credit operations are characterized by the significant sovereign linkage, as the GoP consistently issues debt instruments to tap into the excess liquidity of the banking sector for financing fiscal shortfalls. Given zero credit risk weighting applicable on sovereign exposures and sound liquidity features of sovereign debt instruments, these remain a popular investment avenue for banking institutions. Credit to the private sector, at 19% of GDP, lags regional peers. Furthermore, the outstanding private sector credit remains saturated with a select corporate clientele, with credit to SMEs being limited to less than one-tenth of the private sector credit portfolio.
- **Credit Risk:** Given the slowdown in economic growth and the impact of Covid-19

**Figure 3: Bank-wise Market Share – Domestic Deposits (Dec'20)**

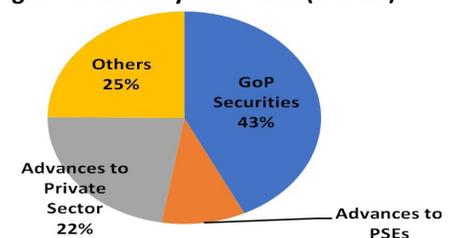


**Table 5: Financial Inclusion Pakistan vs South Asia (Average)**

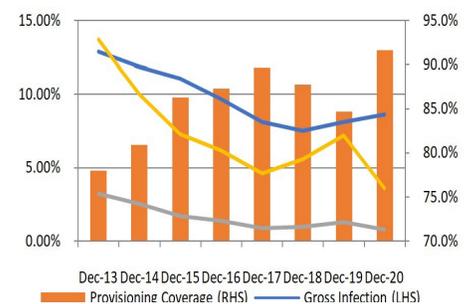
	Pakistan	South Asia
Account with Financial Institution	18.0%	68.4%
Saving at a Financial Institution	6.1%	17.2%
Borrowed from Financial Institution*	2.6%	7.8%

\* includes credit cards

**Figure 4: Industry Asset Mix (Dec'20)**



**Figure 5: Industry Credit Risk Indicators**



**Table 6: Segment-wise breakup of Industry Advances**

	% of Portfolio*	Infection		
		Dec'18	Dec'19	Dec'20
Corporate	71%	8.1%	8.9%	9.4%
Commodity	9%	0.6%	0.9%	0.9%
Consumer	7%	5.0%	4.5%	4.9%
SME	5%	14.9%	16.0%	17.1%
Agriculture	4%	16.9%	17.8%	22.8%
Others	4%	10.1%	8.6%	8.6%

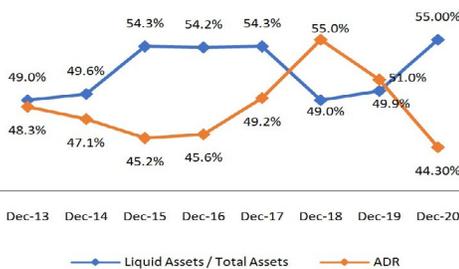
\*As of Dec'20

<sup>3</sup> All figures contained in this segment have been sourced from SBP

**Table 7: Sector-wise Breakup of Portfolio & Infection (Industry)**

As of Dec'20	% of Portfolio	Infection
Production/Transmission of Energy	15.4%	4.2%
Textile	14.9%	12.6%
Agribusiness	7.8%	11.4%
Chemical & Pharmaceuticals	3.6%	5.1%
Sugar	2.6%	23.9%
Financial	2.6%	4.9%
Cement	2.3%	3.0%
Automobile/Transportation	1.6%	12.3%
Electronics	1.2%	20.1%
Shoes & Leather garments	0.4%	15.2%
Insurance	0.1%	2.4%
Miscellaneous	38.5%	9.2%
Individuals	9.0%	7.9%

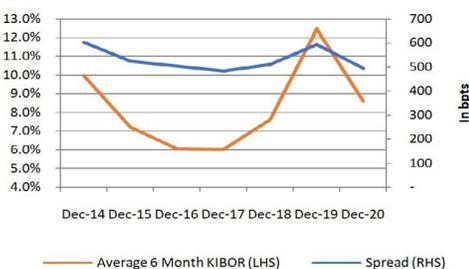
**Figure 6: Industry Liquidity Trend**



**Table 8: Capitalization**

	Dec'18	Dec-19	Dec-20
CAR	15.9%	16.6%	18.4%
Tier I CAR	13.0%	13.6%	14.6%
Net NPLs to Capital	5.6%	7.2%	3.6%
Equity Investment to Capital	11.6%	11.1%	9.0%
Capital to Assets	6.9%	6.9%	7.1%

**Figure 7: Relationship between Banking Spread & Interest Rate**



pandemic, the implied credit risk is considered heightened. In the wake of the pandemic, the SBP introduced numerous pandemic relief measures, which has allowed borrowers to defer the due principal payments by up to a year. Accordingly, so far, credit risk indicators of the banking sector have not depicted any material change. In absolute terms, NPLs, which remained relatively stationary during the period 2014–2017, grew at a CAGR of 12% during the 3-year period (2018–2020). The most notable uptick infection was witnessed in the agriculture segment. In absolute terms, the uptick in NPLs is driven by the largest segment i.e. Corporate, albeit given the portfolio growth, the infection stands only marginally higher than Dec'17 levels. In terms of sector exposures, the textile sector represents the most pertinent risk, given high industry level impairment of 12.6%, while infection in the single largest sector i.e. production/transmission of energy, is on the lower side.

At 9.2%, the gross infection stands on the higher side, albeit given high provisioning coverage, net infection is manageable at 0.8%. The higher gross infection also results from a prolonged recovery process and strict regulations covering write-offs where loans are generally only written off after all efforts for recovery are exhausted. Given the projected increase in NPLs and the limited growth expected in the financing portfolio, the gross infection in the portfolio may reach double digits by Dec'20 but is nevertheless expected to remain well below the historical end-2011 peak of 15.7%.

- Liquidity:** Given sizable exposure to sovereign securities, the liquidity profile of the sector is considered sound, as evident from the high ratio of liquid assets to total assets (Figure 6). Since 2015, the industry's, relatively stable, ADR started increasing and peaked at 55% in Dec'18. In the outgoing year 2020, with limited lending, the industry's liquidity level peaked, with liquid assets standing at 55% of the industry assets as of Dec'20.

- Capitalization:** The Pakistani banking sector has healthy capital buffers in place, as evident from CAR & Tier-1 CAR of 18.4% and 14.6% respectively, as of Dec'20. The minimum CAR & Tier I CAR requirements in the country, are set at 12.5% and 10% respectively, while the 3 largest banks, which are classified as Domestic – Systemically Important Banks (D-SIBs), are required to keep an additional buffer of 1–2%. Presently, the industry has been allowed a relaxation of 1% in both the Total CAR and Tier-1 CAR requirements, as a Covid-19 relief measure. The implementation of IFRS 9 in the industry has been delayed. Overall bank-wise capital adequacy is largely intact, with only 3 small-sized banks reporting capital adequacy below the required minimum. In terms of deposit market share, these banks hold less than 5%, which is indicative of limited systemic risk. Going forward, given the increasing profitability and conservative lending strategy expected to be pursued by most banks, capitalization indicators for large and medium-sized banks are expected to remain sound, while select small-sized banks remain at a higher risk of capital buffer depletion.

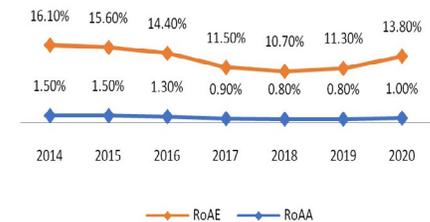
- Profitability:**
  - Banking sector profitability in Pakistan moves in tandem with interest rate movements, with a higher interest rate environment generally translating into better banking spreads. However, the same does depict a slight lag, given faster re-pricing of liabilities (month following interest rate movements) vis-à-vis assets. This lag is depicted graphically in figure 7.

- Banking sector profitability after peaking in 2015 continued to decline for the third consecutive year in 2018, owing to pressure on spreads (maturity of PIBs), one-off expenses and regulatory actions (transaction tax on deposits, super tax and deposit insurance). This is particularly evident from the industry's cost to income ratio, which averaged 59% during the two-year period 2017-18, much higher than the average cost to income ratio for the 3-year period 2014-16.
- The sector's profitability indicators depicted improvement in 2019, as spreads improved on the back of higher prevailing interest rates. Although, subsequently in 2020 the interest rates were reduced in response to the pandemic, the sector profitability, on the contrary, improved; this was mainly a result of the difference in pace of re-pricing of assets & liabilities as discussed above and more than expected deposit growth. The contraction in spreads from the drop in interest rates is expected to fully materialize in the ongoing year.

**Table 9: Industry Profitability Indicators (all banks)**

	2018	2019	2020
RoA (after tax)	0.8%	0.8%	1.0%
RoE (after tax)	10.7%	11.3%	13.8%
Net Interest Income/Gross Income	75.4%	79.3%	79.8%
Cost to Income Ratio	60.2%	57.6%	50.0%
Trading Income to Gross Income	2.0%	0.3%	4.8%
Personnel Expenses to Non-Interest Expenses	43.3%	42.4%	43.4%

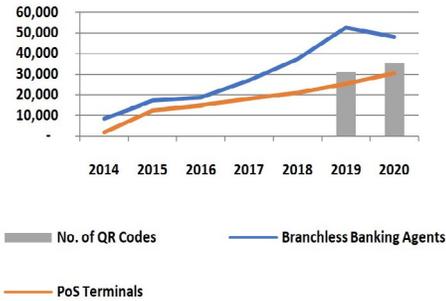
**Figure 8: Industry RoAA & RoAE**



**Table 10: Touch Points (Physical)**

	Dec'20
Branches	1,697
ATMs	2,157

**Figure 9: Digital Outreach**



**Table 11: Share of Branchless Banking Market (Dec'2020)**

	Market Share
No. of Accounts	8.61%
No. of Active Accounts	1.78%
Total Deposits	14.4%
No. of Transactions	2.68%
Value of Transactions	9.13%
No. of Agents	9.97%

**Corporate Positioning: Very Strong**

The Corporate Positioning assessment of an entity constitutes an analysis of the entity's market positioning (particularly market share & growth trends), brand value, product diversification, existing touch points (Physical & Digital) and industry diversification (through stake in subsidiaries & associates).

**Market Positioning:** HBL's strong market positioning in the domestic market is evident by the following:

- Holding deposit & advances market share of 14% and 12% respectively, HBL is classified as a Domestic Systemically Important Bank (D-SIB) by the SBP in the highest category.
- Amidst increasing competition from medium-sized banks in the industry, HBL has managed to sustain its market share over the years.
- HBL's strong market positioning is derived from its massive branch outreach, which is beyond any other bank in Pakistan.
- In terms of number of depositors, the bank leads the other similar-sized banks with a margin of 2x. On average, the number of 'New to Bank' (NTB) customers added by HBL annually is about twice its nearest competitor.
- HBL's credit operations stand above & beyond any other private bank in the industry. As of Dec'20, HBL's gross advances portfolio was nearly twice that of its nearest private sector competitor.
- **Customer Diversification:** As the industry leader, HBL offers a diversified product suite catering to all types of retail, and institutional clients including SMEs.
- **Islamic Banking:** HBL has been operational in the Islamic Banking domain for over a decade and, as of Dec'20, holds a market share of 7.6% of total Islamic deposits. As of Dec'20, HBL operated with 62 dedicated Islamic Banking branches and 853 Islamic Banking windows.

**Digital Banking:** Growing in the area of digital banking remains at the forefront of HBL's strategy.

- Over the years the Bank has solidified its position in the area of branchless banking. The Bank's market share is provided in table 11.
- HBL Mobile achieved the milestone of crossing 1.65m users during 2020 while the Konnect App has almost 1.63m users; the number of transactions across the apps has increased by 89% to 261mn during 2020.

**Brand Value:** Founded in 1941, HBL holds significant brand value in the domestic context. This brand value is derived from the myriad touch points and a sizable marketing spend, which on average amounts to about 4-5x that of other large-sized banks operating in the industry. The budget is allocated to various advertising campaigns run by the bank on TV, digital and print media. HBL is also the named sponsor for the largest domestic sporting event i.e. the HBL Pakistan Super League (HBL PSL).

**Integration:** HBL, and related group companies, are well-integrated in the financial services industry, offering a range of services, while utilizing group company's distribution networks in an optimal way. Associated group companies

have presence in all sectors of the financial services industry, including insurance, asset management, currency exchange etc. A brief overview of related parties is as follows:

- **HBL Asset Management (HBL AMC):** HBL AMC is the 6th largest asset management company in Pakistan with a market share of ~8% in 2020. The company offers a range of investment solutions in both conventional and Islamic arenas.
- **First Micro Finance Bank Limited (FMFB):** Incorporated in 2001, FMFB can be categorized as a large-sized microfinance bank. As of Dec'20, FMFB had a market share of ~16% of microfinance deposits, and had the 2nd largest operations. FMFB has 210 (2019: 203) business locations, comprising 210 (2019: 188) branches/permanent booths (PBs) and nil (2019: 15) Pakistan Post Office (PPO) sub offices in operation.
- **HBL Currency Exchange (Private) Limited (HBL CE):** Having commenced operations in 2005, HBL CE deals in Foreign Exchange business that includes different products (Foreign Currency Sale/Purchase, Foreign Exchange to Commercial Banks etc.
- **Jubilee General Insurance Limited:** Jubilee General Insurance Company Limited (JGI) is the 3rd largest private sector general insurance company in Pakistan with over 60 years of experience in the sector. Market share of the company in terms of gross premium, stood at ~11.6% for 9M'2020.
- **Jubilee Life Insurance Limited:** Jubilee Life Insurance Company Limited (JLIC) is the largest private sector life insurance company in Pakistan in terms of Gross Premium Written (GPW). Market share of the company stands at ~24% for 9M'2020.

HBL also holds shareholding a few overseas financial institutions. These are as follows:

- **Diamond Trust Bank Kenya Limited (DTB):** DTB is a leading regional bank in East Africa, more than 130 branches across Kenya, Tanzania, Uganda & Burundi. DTB is part of the Aga Khan Development Network and has operated in the region for over 70 years.
- **Himalayan Bank Limited, Nepal (HimBL):** HimBL is one of the largest private banks of Nepal. Incorporated in 1992 the bank commenced its operations in January 1993. The bank has 44 branches across Nepal, offering commercial, industrial and merchant banking services.
- **Kyrgyz Investment & Credit Bank, Kyrgyz Republic (KICB):** KICB was established in 2001 in the Kyrgyz Republic & presently operates with a network of 19 branches and 25 sub-branches. HimBL is involved in provision of lending, deposit, money transfers and foreign exchange services.
- **HBL Bank UK Limited:** HBL UK provides a range of commercial banking services to individuals as well as to businesses operating a network of 4 branches in the UK and one in Switzerland.

**Table 12: Subsidiaries & Associates (Dec'2020)**

	Effective Ownership	Stake (In PKR Billions)
<b>Domestic</b>		
HBL Asset Management (HBL AMC):	100.00%	0.6
First MicroFinance Bank Limited (FMFB):	50.51%	2.0
HBL Currency Exchange (Private) Limited (HBL CE):	100.00%	0.4
Jubilee General Insurance Limited:	19.80%	3.2
Jubilee Life Insurance Limited:	18.52%	2.3
<b>International</b>		
Diamond Trust Bank Kenya Limited	16.15%	15.3
Himalayan Bank Limited, Nepal	20.00%	5.0
Kyrgyz Investment & Credit Bank, Kyrgyz Republic	18.00%	2.1
HBL Bank UK Limited	90.50%	9.8

Isg-es GRADING REPORT:  
hABIB BANK limited

Figure 10: HBL Asset Mix

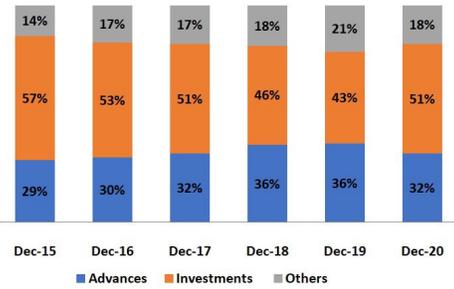


Table 13: Segment-wise Breakup of Advances (Domestic)

	Dec'19	Dec'20
Corporate (Including Structured Credit and Islamic)	58%	58%
Retail and Commercial	13%	12%
Consumer	5%	7%
Agriculture	3%	3%
Commodity	6%	5%
International	14%	14%
Others	1%	2%

Figure 11: Sector-wise Breakup of Advances Portfolio (Dec'20)

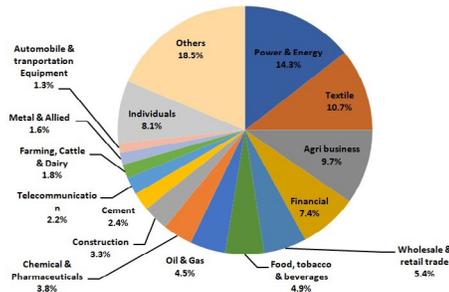


Figure 12: Trade Finance Business

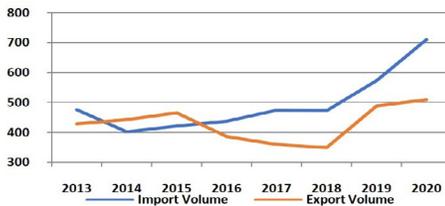
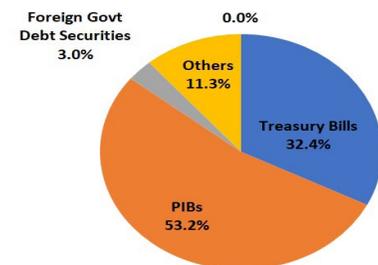


Figure 13: Investment Portfolio (Dec'20)



Financial Performance: Strong<sup>3</sup>

The Financial Performance assessment of an entity constitutes an in-depth analysis of entity-specific risk factors and the long-term profitability trends of the entity vis-à-vis other industry participants. This assessment is categorized into 4 areas i.e. asset quality, liquidity, profitability & capitalization.

**Asset Quality:** HBL has been assessed as 'very strong' in the asset quality context. This takes into account the following:

- **Asset Growth & Mix:** HBL's domestic asset base has grown at a CAGR of 14% over the past 5-year period (Dec'15-Dec'20), exceeding industry CAGR of 12%. Akin to the banking industry, HBL's asset base depicts significant exposure to the sovereign / public sector by way of investments & advances, which represent 56% of the Bank's asset base. Akin to the industry, sovereign securities remain the mainstay for asset deployment, while credit operations remain in second place.
- **Credit Portfolio**
  - The credit portfolio largely (84%) constitutes domestic lending portfolio. With consolidation on the anvil in overseas operations, domestic portfolio is expected to be the growth driver.
  - Notable sector exposures include 'Power & Energy', 'Textile' and 'Agri-business'.
  - Segmentally, lending to corporate segment is the mainstay of HBL's credit operations, as reflected in table 13.
  - Proportion of public sector/government financing represents comprises 22% of the gross portfolio.
  - Portfolio depicts concentration with largest 5 exposures constituting 16% of the domestic portfolio. However, adjusting for large public sector/government guaranteed exposures, concentration in the portfolio is considered manageable.
  - HBL's trade financing business posted an adverse trend till 2018. However, HBL has posted significant improvement in both import & export volumes handled in the last 2 years (Figure 12).
- **Investments**
  - The investment portfolio largely (98%) constitutes debt securities.
  - The remaining includes equity stake, particularly in associates & JVs, comprising 2% of the investment portfolio.
  - The breakup of the debt securities portfolio is provided in figure 13. As can be inferred, the portfolio mainly constitutes short-term (Market Treasury bills) and long-term (PIBs) issuances of the GoP.
  - The investment in equity securities has significantly dropped over the last few years partly due to the adverse equity market performance in the domestic market as well as due to a more conservative posture adopted by the bank from a market risk and RWA optimization perspective. Stake in domestic listed equities comprised about 2.6% of the bank's capital base as of Dec'20.

<sup>3</sup>All figures contained in this segment have been sourced from HBL Financial Reports and data provided separately.

## Credit Risk

- Akin to the industry, the Bank's credit portfolio does depict lack of diversification in terms of sizable concentration within corporate segment as well as some sector-specific concentration. Nevertheless, the Bank's credit portfolio is considered more diversified vis-à-vis peers, given lower sector concentration and higher exposure to consumer finance vis-à-vis industry.
- Credit risk of the portfolio is viewed positively, given Corporate segment is the mainstay of the lending operations, which is relatively less risky than Commercial & SME segments.
- The overall portfolio impairment remains lower than the industry and compares favorably to the large banks' median.
- Remaining relatively stationary since 2013, the quantum of NPLs grew by 7% in 2018, largely on account of depreciation of reporting currency. However, has averaged 0.8% in the past 2-year period (2019-20), well contained compared to the industry average growth of 10% during the same period.
- In view of heightened credit risk environment, specifically on account of the ongoing economic adjustment and the outbreak of the novel coronavirus, NPLs are expected to grow in the ongoing year. However, we expect impairment to broadly remain range-bound. HBL has already been creating a sizeable General reserve to cover any potential losses that may arise on account of the Covid-19 pandemic.
- HBL's net infection and provisioning coverage compares favorably to industry median.

## Liquidity

- The liquidity profile of the Bank is healthy as evident from its cost effective & primarily retail deposit mix.
- Akin to the banking industry in general, liquid assets to funding ratio, at 69%, is high, while ADR is also aligned with similar-sized banks.
- HBL caters to a sizeable and growing customer base of over 30 million customers which is significantly higher than that of its major private sector competitor. This includes 17mn customers served through its Konnect channels, of which 12mn customers related to the Ehsaas Kafaalat program; this includes disbursement to 8.5mn beneficiaries of the one-time emergency relief given during the Covid-19 pandemic. Ehsaas Kafaalat is a program providing social payments and support to the poorest sections of society. Moreover, an average of 0.92mn million new to bank (NTB) customers were added to the bank's clientele annually during the past 4-years (2017-2020). Going forward the growth is expected to be exponential considering higher use of the digital channels by the Bank.
- The overall Current & Savings Accounts (CASA) proportion of the deposit base has grown from 73%, as of Dec'13, to 83% as of Dec'20, which was the third highest in the industry.
- HBL's consolidated cost of deposits (inclusive of cost of overseas deposits) is the second lowest amongst similar-sized banks in the industry.

## Profitability

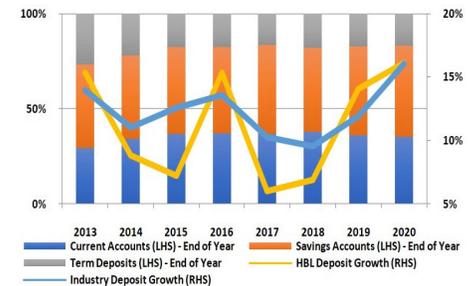
- HBL's long term RoAA & RoAE had remained stable, and commensurate with

**Table 14: Segment-wise Breakup of Advances Portfolio**

	Dec'18	Dec'19	Dec'20
Gross Impairment	7.0%	6.6%	6.3%
Corporate	6.9%	6.7%	6.0%
Retail and Commercial	2.7%	2.6%	2.6%
Consumer	2.0%	1.9%	2.0%
Agriculture	8.1%	7.5%	6.9%
Commodity	-	-	-
International	14.4%	12.5%	14.2%
Others	2.6%	2.6%	2.2%
Provisioning Coverage	84.7%	88.7%	86.3%
Provisioning Coverage (incl. general provision)	89.1%	93.2%	99.7%
Net Impairment	1.1%	0.8%	0.9%
Concentration –Largest 5	20%	20%	16%
Largest 20	39%	40%	34%
Largest 50	53%	55%	47%

\*Reflects concentration in terms of largest exposures in domestic (funded) portfolio

**Figure 14: Deposits Composition & Growth Trend**



**Table 15: Liquidity**

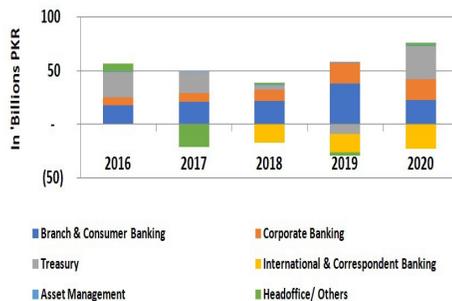
	Dec'19	Dec'20
Deposits – Domestic	89%	91%
Overseas	11%	9%
Liquid Assets to Funding	62.5%	69.3%
Concentration* – Largest 5	6.8%	5.2%
Largest 20	12.7%	13.6%
Largest 50	18.0%	20.3%
LCR	155%	256%
NSFR	176%	182%
Deposits – Individuals	53%	54%
Government	5%	5%
Public Sector Entities	5%	5%
Banks	0%	0%
Non Banking FIs	5%	10%
Private Sector	30%	25%

\*Reflects concentration in terms of largest depositors in the domestic portfolio

**Table 16: Non-recurring (One-off) losses incurred in 2017-20**

In PKR' Billions	2017	2018	2019	2020
NYSDFS Settlement Payment	23.7	-	-	-
NY Remediation Cost	3.9	9.8	13.3	5.7
Revaluation Loss on open FX position	1.1	6.8	5.0	1.9
Business Transformation Program	-	5.6	1.9	0.9
Pension Charge	-	1.1	-	-

**Figure 15: Segment-wise Breakup of Profitability**



other banks in the industry, barring the period after 2017, which was largely affected by adverse performance in international operations.

- Factors affecting profitability were as follows:
  - 2017:** Sizeable Rs. 23.7b settlement payment incurred on New York operations.
    - Post the NY settlement payment, the Bank embarked on a drive to enhance its compliance infrastructure by undertaking a bank-wide Business Transformation Program (BTP). The Bank incurred Rs. 5.6bn in one-off consultancy costs as part of this BTP.
  - 2018:** Weakening was due to de-risking and shrinkage in international operations and sizeable non-recurring items (remediation & pension cost, business transformation cost, exchange losses on foreign currency borrowing and consultancy & legal expenses).
  - 2019:** The ongoing remediation cost of New York operations continued to hamper profitability; these costs were mostly concluded in Q1'2020.
    - The bank's profitability indicators have started to recoup in 2020, with both RoAA and RoAE posting improvement. As the remediation costs tapered off in 2020, and on the back of improved spreads – as liabilities re-priced faster than assets in a declining interest rate environment – HBL's net interest income posted noteworthy growth of 28%. Furthermore, the revenue base was also supported by capital gains on fixed income instruments, as a result of which total revenue hit a historic high of Rs. 160b, while bottom line also doubled for 2020 vis-à-vis 2019.
- Going forward, we expect RoAA & RoAE to normalize and become commensurate to other banks, as reflected in table 17.
- Factors that may affect our profitability expectations include higher than expected provisions on IFRS 9 implementation, which is scheduled for full implementation in 2021, although this will depend on guidance awaited from the SBP.

**Table 17: Profitability Indicators**

	2016	2017	2018	2019	2020	2021 <sup>p</sup>	2022 <sup>p</sup>
RoAA	1.4%	0.3%	0.4%	0.5%	0.9%	1.0%	1.1%
RoAE	18.1%	4.6%	6.4%	7.3%	12.6%	14.0%	15.5%
Spread	4.0%	3.8%	3.6%	4.2%	4.7%	4.4%	4.6%
Yield	6.8%	6.6%	7.1%	10.1%	9.3%	9.4%	10.7%
Cost of Funding	2.8%	2.9%	3.4%	5.8%	4.7%	4.9%	6.1%
Efficiency	51.0%	57.0%	77.3%	72.4%	61.3%	59.4%	59.1%

### Capitalization

- Despite a sizeable settlement payment with respect to New York operations and significant growth in advances portfolio, capitalization has improved over a timeline.
- We expect bank's leverage to remain above ~4%; well above the minimum regulatory requirement of 3%.
- HBL's CAR is comfortably compliant with domestic regulations. Actual CAR requirement for HBL is actually 2% higher vis-à-vis other banks, owing to its status as a Domestic-Systemically Important Bank (D-SIB).

- With sizable excess CAR cushion, which is expected to continue, HBL's capitalization is considered to be strong.

**Table 18: Capitalization**

	Dec'16	Dec'17	Dec'18	Dec'19	Dec'20
Equity (PKR B)	196	189	199	225	265
Leverage (x)	4.7%	4.2%	3.8%	4.4%	4.3%
CAR	15.5%	16.0%	16.2%	15.4%	17.2%
Tier I CAR	12.0%	12.0%	12.0%	12.5%	13.5%
Net NPLs to Capital (excluding revaluation reserve)	6.1%	5.8%	6.8%	4.7%	5.0%

- Our CAR projections may be affected by higher than expected provisioning requirement on adoption of IFRS 9.

## CORPORATE GOVERNANCE: **STRONG**

The Corporate Governance assessment of an entity constitutes an analysis of the bank's Board & Board Committee compositions, organizational structure and internal control infrastructure, in comparison to domestic regulations and international best practices.

### REGULATORY SUPERVISION

- As a listed entity, HBL is subject to the Corporate Governance (CG) Regulations, as prescribed in the Listed Companies Regulations, 2019, issued by the Securities & Exchange Commission of Pakistan (SECP).
- The CG regulations were updated in 2019, and include specific rules concerning Board & Board Committee compositions, Terms of Reference (ToRs) of the Board, Director Remuneration & Training and requirements prescribed for personnel heading the control functions such as Finance, Internal Audit etc. In addition, the regulations also lay down the reporting requirements. The regulatory guidelines are well documented and broadly cover all best practices.

### BOARD GOVERNANCE

**Board of Directors:** HBL has an eight-member Board of Directors (Board) in place, of which all are non-executive directors, except the CEO who is not elected but is a deemed director.

**Independence & Objectivity:** With 4 of 8 members of the Board being independent, the composition complies with the minimum independence criteria of at least a third. As per the criteria of independence prescribed by the SECP, a director is not considered independent if he has served for more than 3 terms. HBL's independent directors comply with this requirement as of Dec'20. The Board also includes a female director, which is a requirement under domestic regulations. Local regulations do not require the Chairman of the Board to be independent.

**Board Meetings:** As per the Bank's policy and domestic regulations, Board meetings are required to be convened on quarterly basis. Over the last 5-year period, at least 10 Board meetings were convened per annum. Attendance of all members in the meetings was gauged as satisfactory.

**Board Committees:** HBL has 9 Board committees in place, which include 4 control related committees. An overview of the control committees is as follows:

- Board Audit Committee (BAC):** The BAC comprises 3 Board members, including 2 independent Directors. In line with best practices the BAC is chaired by an Independent Director. Committee meetings are convened 7-9 times per annum, as observed since 2015. Attendance at committee meetings has remained satisfactory. In accordance with best practices, the BAC also annually meets the external auditors separately.
- Board Risk Management Committee (BRMC):** The BRMC comprises 3 Board members, is chaired by an independent director, and includes a non-executive nominee director and the CEO. Meeting frequency of the committee has remained above the quarterly requirement.
- Board Human Resource & Remuneration Committee (BHRC):** The BHRC constitutes 3 Board members, including 1 independent director, who also chairs the Board. Among the members is the Chairman of the Board of Directors, who sits in BHRC in a non-chair position. Vis-à-vis international best practices, the Board Chairman is usually not in a non-chair position, but

**Table 19: Board Operations Compliance with CG Best Practice and Domestic Regulations**

Board Independence (1/3rd Independent)	✓
At least 1 Female Board Member	✓
Board Meets Quarterly (Minimum)	✓
Board Attendance (>80%)	✓
Adequate Board Committees	✓
Board Committees Composition Compliant with Domestic Regulations	✓
Board Committee Attendance (>80%)	✓
Fixed Remuneration Policy for Board members	✓
Board Self Evaluation	✓

this is as per local regulations. Meeting frequency has averaged 6 per annum between 2015-20.

- **Board Compliance & Conduct Committee (BCNC):** This committee, formed in 2018, includes 3 Board members. There is an independent majority in place, albeit the committee is chaired by a nominee director. During 2020, 8 committee meetings were convened.
- In addition to committees mentioned above there are 4 more Board committees, namely Board Nomination & Remuneration Committee, Board Development Finance Committee, Board Oversight Committee – International Governance and Board IT Committee.

**Board Remuneration:** The Board Remuneration (BR) policy complies with local regulations as well as best practices, as it is devoid of any variable performance related incentive. As per policy, the remuneration of Directors is approved by the shareholders and presently stands at Rs. 600k per meeting. In addition to the fixed meeting fees, the BR policy also provides travel and daily allowance entitlements for Non-Executive Directors for business related travel.

**Related Party Transactions:** As per the Bank’s policy, all related party transactions are undertaken on an arm’s length basis. Akin to industry policy, and as per their terms of employment, HBL staff is entitled to advances at discounted rate.

**Policy Framework:** HBL has a comprehensive whistle blowing policy in place, with several reporting channels in place, including the bank’s 24/7 hotline, email/ mail or through the bank’s online platform. Depending on the nature of the observation, appropriate escalation hierarchies are in place and disclosed on the Bank’s website, along with assurance of secrecy and confidentiality. Other key policies developed by HBL, which support the CG Score include:

- Anticorruption & Bribery
- Antifraud
- Conflict of interest
- Business cyber security

**ORGANIZATIONAL STRUCTURE**

- The management team at HBL is headed by Mr. Muhammad Aurangzeb, who was appointed as the President/CEO in 2018.
- There are 9 management committees in place, namely Executive Committee, Compliance Committee of Management, Management Risk Committee, Equity Investment Committee, Strategic Assets Committee, Global Engagement Committee, Controls Committee, IT Steering Committee (ITSC) and Asset & Liability Committee (ALCO). These are chaired by the CEO.
- The Bank’s organizational structure is presented in Annexure A. At present, senior management constitutes 24 business/ functional heads of whom 8 report to the Chief Operating Officer and the remaining directly to the CEO; the Company Secretary and the Chief Internal Auditor report to the Board and the Board Audit Committee respectively, with administrative reporting to CEO.

**INTERNAL CONTROL INFRASTRUCTURE**

HBL’s internal Control infrastructure is divided into 3 layers called the ‘three lines of defense’ model, which are as follows:

1. The 1st line of defense refers to front office customer facing functions.

**Table 20: Control Functions Staff Strength (Dec’20)**

	Head Count
Risk Management	348
Global Compliance	227
Internal Audit	196
Internal Control Unit/ Risk & Compliance Control Unit	76

2. The 2nd lines of defense are the Compliance and Risk Management functions. A brief overview of these functions is as follows:

a. The Risk Management (RM) function monitors the adherence of the Bank to the Risk Management Policy and Risk Appetite Statement (RAS), which is approved by the Board and is in line with international best practices, regulatory requirements and evolving business needs. The function is structurally integrated and organized under the Chief Risk Officer (CRO), thus enabling the Bank to take a holistic view of risks across the organization. The CRO has a direct reporting line to the CEO and a dotted reporting line to the Board Risk Management Committee (BRMC). The BRMC is responsible for overseeing / supervising the risk profile of the Bank.

Various risk committees at the senior management level are responsible for oversight and execution of the risk management framework, whereas day-to-day risk management activities are delegated to different levels through multi-tier management supervision and clearly articulated policies and procedures. The risks are viewed on an integrated basis, covering all types of risk including Credit, Liquidity, Market, Country and Enterprise risk. Enterprise risk also includes Operational risk and Model risk and is responsible for risk identification and assessment, risk architecture and 2nd line control testing across the whole Bank. Information Security related risks are managed by the Chief Information Security Officer (CISO), under the umbrella of the Chief Operating Officer, whereas Financial Crime & Compliance Risk falls under the ambit of the Chief Compliance Officer (CCO).

In a landmark initiative, Risk has recently introduced a Credit Officer / SCO structure within the front office, in order to empower business resources with Credit Approval Authority (CAA) in joint sign-offs with Risk. The CAA would now stem out of Credit Policy (based on different approving levels) in place of functional designations.

Risk Management deploys MIS reports for monitoring Credit, Market, Liquidity & Country / Cross border risks and for portfolio management measures such as assessing industry & tenor concentrations, and to recommend measures to be taken by the businesses in order to mitigate identified risks. For operational risk management under Enterprise Risk Management (ERM), Risk Control Self-Assessment (RCSA), Key Risk Indicators and Operational Loss Data Management are used to gauge the likelihood and severity of operational risk. The Operational Risk Profile, Fraud Risk Assessment and Key Risk Indicators are regularly shared with senior management and the BRMC. The Bank uses stress testing and scenario analysis to proactively assess the impact of different operational loss scenarios. The bank uses the latest version of the SAS application for Operational Risk Management, whereas SAS related trainings are arranged on a regular basis.

For capacity building of Credit Officers & Senior Credit Officers, Risk Management plans to introduce credit training modules, ranging from core credit to dealing with structured & complex credits.

b. Compliance: As part of the successfully completed Business Transformation program, HBL has totally revamped its Compliance infrastructure over the last 3 years. Staffing has been more than doubled and subject matter experts have been inducted in new areas such as Trade-Based Money Laundering.

Upgrades were made to the sanctions screening and transaction monitoring systems. The management has also instituted a real time customer risk rating methodology incorporating FATF, BASEL and Wolfsberg guidelines. HBL has also developed a holistic Financial Crime Risk Assessment based on local and international best practices to better dimension and mitigate the relevant risks. The emphasis on Compliance training has translated into the rollout of improved programs including e-learning as well as for classroom training. A suite of e-Learning modules was also developed in Urdu, in addition to English, to ensure that the training is appropriately delivered and achieves maximum outreach and knowledge retention. HBL also has a dedicated Compliance Committee of Management to enhance governance and oversight, which reviews compliance matters across the entire organization. This committee is chaired by the President and serves to bring focus on Compliance at the senior most levels of the organization.

c. The Bank's Internal Control Unit (ICU) conducts on-site and off-site reviews of branch and head office operations. ICU monitors and identifies design and implementation gaps in processes and ensures that timely remedial actions are undertaken.

3. The 3rd line of defense is the Internal Audit function. Its scope includes functional audits to evaluate the effectiveness of the control environment. A summary of material audit observations is presented to the Board, while the Board Audit Committee routinely reviews audit reports being generated by the function.

**Information Security:** As a banking institution, information security is a critical control area. So far, HBL is the only bank in Pakistan to be ISO 27001 (Information Security Management Systems) certified. In addition, HBL has also achieved and maintained the Payment Card Industry Data Security Standard (PCIDSS) certification.

Business Continuity concerns are adequately addressed with the Bank having successfully conducted 50 BCP exercises across domestic and international operations.

## ENVIRONMENTAL ACCOUTABILITY: MEDIUM

The Environmental Accountability assessment of an entity constitutes an analysis of the bank's Environmental Accountability initiatives vis-à-vis domestic norms and international best practices.

### REGULATORY SUPERVISION

The SBP issued 'Green Banking Guidelines' (GBG) in Oct'17, allowing banks one year for adoption. The Guidelines require banks to:

- Develop a Green Banking Policy covering 3 areas:
  - **Environmental Risk Management (ERM):** Incorporating environmental risks as part of credit risk methodology and assessment of the existing portfolio, while incorporating the same in future business acquisition. This assessment includes Environmental Due Diligence (EDD) and Environmental Risk Rating (ERR) of all clients in the existing portfolio. The policy also requires making EDD and ERR mandatory for all future transactions.
  - **Green Business Facilitation:** This shall include assigning personnel to take lead in development of green financing products.
  - **Own Impact Reduction:** The bank is required to appoint personnel having qualifications in engineering and/or facility management in order to oversee own impact reduction.
- Set up organizational structure to manage Green Banking initiatives.
  - Initially, this shall include at least a dedicated Green Banking Manager and a Green Banking Officer. The Guidelines also require at least 1 Environmental Risk Manager to have voting rights in the Credit Risk Committee.
  - Banks are required to develop internal structures, including procedures to identify, assess, mitigate, monitor and report on environmental risks.
  - Banks are required to set maximum exposure limits for industries/sectors which are more hazardous to the environment.
  - Banks are required to develop financial mechanisms adapted to fit green investments practices for all clients.
  - Banks are required to develop a structural approach for developing capacity for growing green banking.
  - Banks are required to periodically review and report environmental risk positions. The responsibility for reporting of environmental risks and compliance with environmental regulations has been placed with the Risk Management function, to be done in coordination with the Green Banking Office.
  - Banks are required to undertake green awareness campaign for clients.

### ENVIRONMENTAL ACCOUNTABILITY INFRASTRUCTURE AT HBL

HBL's efforts to comply with the GBG have been superior vis-à-vis the industry. Recognizing its role as a responsible financial institution, HBL is committed to sustainable development and the maintenance of high levels of Environment, Social and Governance (ESG) practices in the banking ecosystem. These ESG

practices have been embedded in its credit approval system through robust governance and risk management protocols, enabling it to structure and implement sustainable solutions for its clients across its global network. HBL has undertaken the following measures to comply with the GBGs:

- A full-fledged Green Banking Office is in place, staffed with 5 resources, including a Green Banking Manager.
- The salient features of HBL's Social & Environmental Management System (SEMS) policy are as follows:
  - The policy defines the direct, indirect and reputational risk implied by its exposure against various counterparties.
  - The policy categorizes HBL's existing counterparty exposures in terms of Category A to C, with Category A, representing an exposure featuring significant adverse social and environmental impacts that are irreversible, diverse, or unprecedented and Category C representing exposures with the lowest environmental impact. The financing portfolio has been categorized in each environmental risk category and this is reviewed annually.
  - The policy also provides a mapping of various categories with the respective industries that are most likely expected to be part of that category.
  - In addition, the policy lays out the SEMS evaluation & reporting process.
- HBL has conducted EDD for all counterparties that are part of its existing portfolio.
- Environment Social Risk Management (ESRM) has been made part of the corporate/commercial loan disbursement procedure, which includes an environmental checklist to be completed for all new credits and renewal applications.
- The Bank considers capacity building as a very important factor of its ESG strategy. The environment team continually carries out focused ESG trainings and capacity building sessions, one to one and case-based mentoring of relationship teams.
- HBL has approved a "No New Coal" Policy which is in line with the Bank's vision for environmental protection and green financing. This represents a very significant commitment by the Bank towards the reduction of greenhouse gas emissions, and is the first of its kind by any commercial bank in Pakistan.
- HBL maintains its leadership position by being the only Pakistani bank as a signatory of the Green Investment Principles, China. Under the flagship Belt and Road Initiative (BRI), HBL represented Pakistan at a global forum in China geared towards promoting green investment. This resulted in the development of a 'Green Light System', which seeks to evaluate and minimize the potential eco-environmental implications of BRI projects. Furthermore, as Pakistan's largest bank, and the largest executor of China Pakistan Economic Corridor (CPEC) related financing in Pakistan, HBL is playing an integral role towards a greener CPEC, with the ultimate goal of a greener BRI.
- In the area of product development, a financing scheme for solar power solutions has been introduced by all industry participants; the scheme

features competitive rate of financing of solar energy solutions, and is offered by SBP, through banks, under its Renewable Energy Refinance Facility. HBL remains among the highest users of this facility for on-lending to its clients. It is also in advanced stages of finalization of additional green products, which include green variants of mortgage, commercial building & home equity financing.

- Areas where HBL has made considerable advances during 2020 include the Financing of Renewable Energy (RE) solutions, including significantly increased engagement with the CDC Group, UK and international development finance institutions for promoting RE financing through various solar, photovoltaic and wind energy initiatives. HBL has done portfolio level impact analysis by including an EDD questionnaire as part of client onboarding documentation.

**Areas of improvement:** Going forward, the following need to be considered

- **Green Business Facilitation:** In line with the industry, HBL started financing for solar power solutions. However, there are certainly additional products, which include green variants of mortgage, commercial building & home equity financing, fleet loans, credit cards and deposit products.
- **Reporting:** HBL has included a separate disclosure covering its ESG initiatives in its Annual Report 2020. An internal mechanism of reporting these initiatives to the senior management, which allows for enhanced transparency and accountability, has also been put in place. However, at present, the metrics being tracked regarding the Bank's own energy consumption and future roadmap are not being reported publicly. Reporting of the same would allow for enhanced transparency and accountability.

### GREENHOUSE GAS (GHG) EMISSIONS

- **Scope 1–3 Emissions:** As a banking concern, scope 1 & scope 2 emissions are limited to electricity procured from the utility company, own backup generation (used in case of power outages) and general movement of resources and personnel. The scope 3 emissions are significant, as it would include emissions from the entire portfolio. Using the utilities expense as a measure for energy consumption and the number of branches as a proxy for the Bank's size, HBL's utility bill per branch, at Rs. 1.08mn per annum, is closely aligned with the sector median.
- **Initiatives to Reduce Emissions:**
  - In an effort to reduce greenhouse gas emissions, renewable energy solar photo voltaic solutions have been installed at 138 sites. The bank has been able to reduce its paper consumption by 10% in 2020 as compared to 2019 and continues to encourage the digitization of communication channels. Initiatives have been undertaken for cost-effective, fuel-efficient sourcing and replacement of aging gensets.
  - In the area of Own Impact Reduction, the Bank has carried out significant initiatives on effective utilization of its resources, such as energy, water and paper which are being monitored through a quarterly reporting mechanism to the parent company.
  - With HBL Mega Tower, a silver LEED (Leadership in Energy and Environmental Design) certified building, the Bank has embarked on its

vision for green buildings. The First Micro Finance Bank's (FMFB) new Regional Headquarters in Gilgit is being constructed to LEED and EDGE standards.

### **WATER CONSERVATION**

- With Pakistan being a water stressed nation, assessing water consumption and assigning reduction targets is considered an essential part of Environmental Assessment (EA). As a non-manufacturing banking concern, water conservation only applies to HBL in the area of Own Impact Reduction.
- Water consumption management remains a difficult task, given the widespread HBL branch network. However, effective water management methodology has been initiated through management system..

### **WASTE MANAGEMENT**

- As a non-manufacturing banking concern, waste management is limited to office waste i.e. paper & board.
- In this area, the Bank has made concerted efforts have been made to move towards digitization and reduction of paper use. Duplex printing has been initiated at locations where these facilities are available. The management also tracks paper usage for each quarter. Given management's concerted efforts and the reporting mechanism put in place, a reduction of 10% in paper usage has been reported to the stakeholders.

### **IMPACT ON SURROUNDINGS**

- HBL's 1,697 strong branch network is largely situated within urban centers and commercialized estates in rural areas; accordingly the risk of impacting wild life habitats is limited.
- Additionally, as part of its CSR initiatives, the Bank undertakes activities aimed at creating a positive impact on its surroundings. These include tree plantation, cleanliness and general awareness drives.



**Attrition:** HBL’s rate of employee attrition has averaged 10.2% during the past 3-year period, which is similar to what is experienced by peer banks. However, in order to reduce the attrition rate, the following initiatives have been undertaken:

- In 2018, a Mercer-conducted engagement survey was rolled out for the first time, which concluded an overall engagement level of 78%, ahead of Mercer’s 74% global average.
- To enhance engagement, regular sessions and town halls with the President and senior team members are held.
- In an effort to attract outstanding millennials, a batch of 30 high potential employees are selected each year as Management Trainees under the industry-acclaimed program ‘The League’. The program includes short international assignments, in addition to departmental rotation.
- To retain employees at front-end branches, career and learning ladders at specific job roles have also been introduced along with periodic review of salaries to align them with market.
- **Policies:** HBL has an HR Policy in place, which is available for employees on the bank-wide intranet. With focus on well-being of employees and to support their families, a medical facilitation program was launched during the pandemic that was considered a benchmark for the industry. In addition to medical, education and loan facilities, HBL recently launched a Pay Continuation Plan to secure the future of the family in case of an employee’s death.
- **Process to Address Employee Grievances:** A structured mechanism exists for addressing employee grievances and to ensure these are resolved within defined timelines. Employees are provided with different channels through which they could raise their concerns with HR. In the outgoing year, 29% of such complaints resulted in a positive outcome for the complainant.
- **Learning & Development (L&D):** In the area of investment in human capital, HBL is the industry leader, given a training expenditure twice that of the large banks in the industry. During the past 3 years, HBL has imparted more than 550,000 man-hours of training annually. HBL is also known in the industry to leverage technology for imparting trainings through e-learning modules or virtual instructor led training programs.
- **Employee Welfare Initiatives during COVID-19:** As Banking was deemed as an essential service during the pandemic, most of HBL branch network remained operational with 75% of its employees working from their offices, to provide services to customers. HBL’s work from home policy with reduced number of employees in our high-density buildings was implemented immediately at the onset of the pandemic with staff given all the tools like laptops and VPNs for them to maintain uninterrupted work.
- HBL adopted not only precautionary and safety measures in all its offices and branches, but also implemented a number of initiatives to facilitate staff. These included strict observance of safety protocols in all offices and ensuring adequate availability of sanitizers and masks for employees and customers. The Bank appointed doctors throughout Pakistan to support employees and their families with medical advice, adopted aggressive COVID testing and facilitated medical quarantine support. An Employee Assistance Program was put in place to support employees with counselors to cope with the stress. An industry-leading and

**Table 21: Staff Training Cost Per Employee (In PKR) (Comparison with Large-sized Banks)**

	2018	2019	2020
HBL	17,629	19,895	9,735
United Bank	9,762	12,701	7,277
Allied Bank	8,899	8,160	3,797
National Bank of Pakistan	8,337	7,140	4,297
MCB Bank	4,137	4,703	2,766

Source: Banks Financial Statements

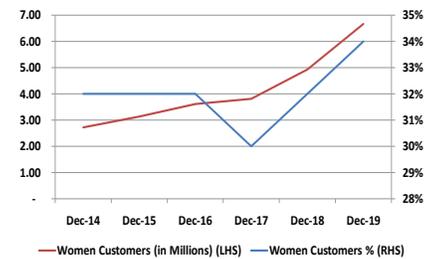
acclaimed medical program was offered, providing complete coverage of medical expenses related to COVID-19 including testing, medication and hospitalization, for employees and their immediate family members. HBL also introduced an interest free loan to support employees with COVID related medical expenses for non-dependent close family members. The Bank was also the first organization in Pakistan to offer free of charge COVID-19 vaccination facility to all employees and their spouses along with all other outsourced staff working in our premises.

## EXTERNAL STAKEHOLDERS

**Customers:** HBL's number of clients has grown at a CAGR of 26% over the 5-year period (2016–2020), representing the single largest client base among all banks.

- Gender Diversity:** In 2016, HBL launched the HBL Nisa program, which aims to provide financial services tailored to women and women-owned businesses. In addition, the Nisa program also provides non-financial services including workshops, training sessions and networking opportunities to help grow outreach. As of Dec'20, HBL was serving 3.3mn women customers, including 0.6mn under the Nisa program. HBL Nisa program was refreshed and relaunched in late 2020 with features tailored to the varied needs of women in Pakistan. The distinguishing aspect of the new product is the bundling of free insurance services designed to empower women by providing a unique combination of health and financial protection riders.
- Through its subsidiary FMFB, HBL serves 571k microfinance borrowers, 32% of whom are women.
- Through HBL's branchless banking platform, HBL Konnect, the Bank has provided banking access to 5.1mn previously unbanked customers, of whom 25% are women.
- Farmer community:** HBL Rural Banking leads the industry as the largest farmer finance provider with a market share of ~ 30% amongst commercial banks.
- HBL "Kissan ki Awaz" originally launched in 2018, is a flagship discussion platform for farmers to meet HBL through a series of structured town halls. In these sessions, agronomists and academic experts are also invited to provide advice to farmers.
- Launched in 2019, HBL created a Development Finance Group, unique within the industry, to help farmers. HBL designed and successfully implemented two farm-to-processor pilot interventions targeting underserved farmers in rural areas. Farmers improved productivity by receiving in-kind loans packaged as quality agricultural inputs, access to latest mechanization and impartial agronomic advisory. The loans were settled by pre-determined corporate bulk buyers of the produce. Another pioneering feature was the inclusion of small, tenant farmers who were offered facilities collateralized by crops. With a 'double bottom line' impact as its ethos, these interventions yielded substantial uplift in farmers' income. This agriculture value chain is expected to scale up significantly during 2021, with greater emphasis on digitization of the customer journey, including on-boarding 'in the field' via HBL Pay, to improve turnaround times.

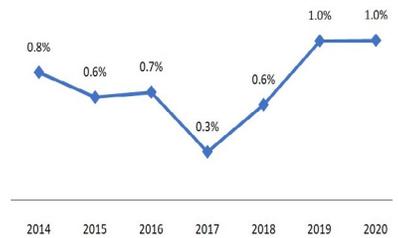
**Figure 17: Women Customers**



Source: HBL Financial Statements

- In the area of Low Cost Housing, HBL is actively supporting the Naya Pakistan Housing Program — a Public Private Partnership approach to make housing affordable for all, financing various low cost housing projects that will cater to the low-income segment of the population.
- **Community:** HBL contributes 1% of its bottom line of its bottom line to the HBL Foundation. The presence of a Foundation limits an entity’s ability to claw back its donations and hence is viewed positively. The donations are allocated by the HBL Foundation to specific donees in the areas of Health, Education and Community Development.
  - Over the last 5 years, HBL has contributed an average of 0.7% of its Profit Before Tax (PBT) as donations. Even though it compares favorably to other banks in the industry, the donation to PBT ratio falls short of market norms (~1%). The lower distribution of the banking sector vis-à-vis other corporates is mainly attributable to a higher effective tax rate applicable on banks, which is higher by up to 14%.

Figure 18: Donations (as a % of PBT)



Source: HBL Financial Statements

**Shareholders:** As a listed entity, HBL has made detailed disclosure, including Corporate Governance disclosures, which are considered superior in the domestic context.

- HBL’s duty of transparency to shareholders is prescribed by the regulations applicable to listed entities, wherein it is required to publish interim financial statements and annual financial statements within specified time periods.
- HBL has a designated investor relations department in place to handle investor queries regarding the Bank and its performance.
- The Bank regularly undertakes investor meetings and presentations, which cover business initiatives and performance in-depth and has a formal earnings call with investors and analysts following the declaration of the quarterly results.

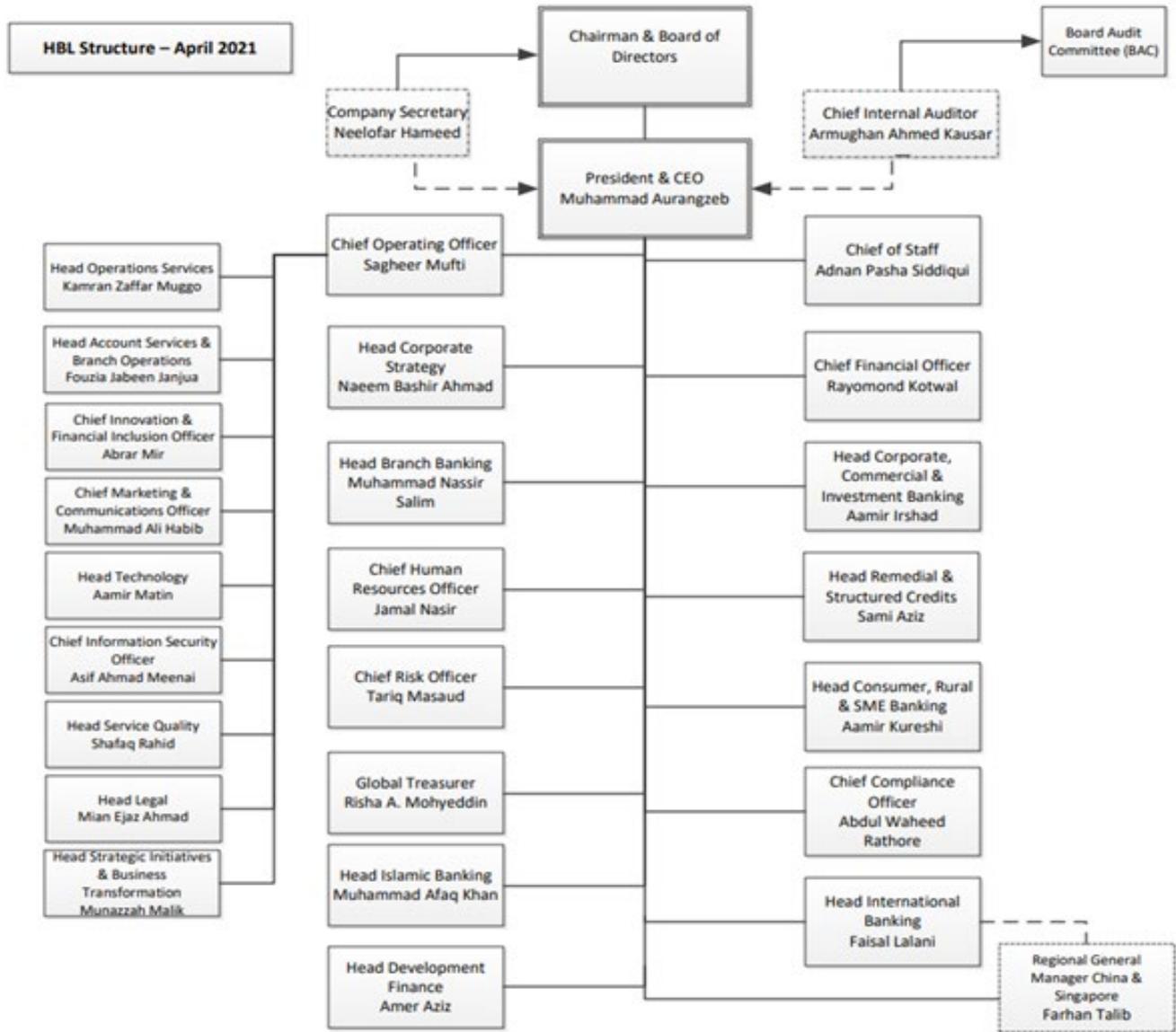
**Areas of improvement:** Even though HBL has done reasonably well in the area of social contributions, vis-à-vis other banks in the industry; there is certainly room for improvement.

As the largest bank in Pakistan, HBL can take notes from international banks, where social responsibility initiatives have been merged with the business initiatives. Potential initiatives could include reserving 0.5-1% of the portfolio for addressing social issues.





## HBL ORGANIZATIONAL STRUCTURE (Annexure A)



## THE SCORING FRAMEWORK

The following factors are inputs in determining the overall ISG-ES Score which are reflected in respective range-bound scales as below:

### INVESTMENT STRENGTH SCORING SCALE

Scale	Score Range	Definition
IS 1	(91-100)	Very Strong Investment Strength
IS 2	(76-90)	Strong Investment Strength
IS 3	(61-75)	Good Investment Strength
IS 4	(40-60)	Medium Investment Strength
IS 5	(less than 40)	Low Investment Strength

### SOCIAL RESPONSIBILITY SCORING SCALE

Scale	Score Range	Definition
SR 1	(91-100)	Very Strong Social Responsibility
SR 2	(76-90)	Strong Social Responsibility
SR 3	(61-75)	Sound Social Responsibility
SR 4	(40-60)	Adequate Social Responsibility
SR 5	(less than 40)	Weak Social Responsibility

### CORPORATE GOVERNANCE SCORING SCALE

Scale	Score Range	Definition
CG 1	(91-100)	Very Strong Corporate Governance
CG 2	(76-90)	Strong Corporate Governance
CG 3	(61-75)	Satisfactory Corporate Governance
CG 4	(40-60)	Adequate Corporate Governance
CG 5	(less than 40)	Weak Corporate Governance

### ENVIRONMENTAL ACCOUNTABILITY SCORING SCALE

Scale	Score Range	Definition
EA 1	(91-100)	Very High Environmental Accountability
EA 2	(76-90)	High Environmental Accountability
EA 3	(61-75)	Good Environmental Accountability
EA 4	(40-60)	Medium Environmental Accountability
EA 5	(less than 40)	Low Environmental Accountability

### SHARI'AH GOVERNANCE SCORING SCALE

Scale	Score Range	Definition
SG 1	(91-100)	Very Strong Shari'ah Governance
SG 2	(76-90)	Strong Shari'ah Governance
SG 3	(61-75)	Satisfactory Shari'ah Governance
SG 4	(40-60)	Adequate Shari'ah Governance
SG 5	(less than 40)	Weak Shari'ah Governance

Based on the above discussed parameters, the overall ISG-ES is derived at using a weighted average score.

### COMPONENT WEIGHTS

Components of ISG-ES	Weights
Investment Strength	60% (Business Risk 35%/ Financial Performance 25%)
Governance	20%
Social Responsibility	10%
Environment Accountability	10%

### OVERALL ISG-ES SCALE

Scale	Score Range	Definition
ISG-ES 1	(91-100)	Very Strong Investment Strength Prospects
ISG-ES 2	(76-90)	Strong Investment Strength Prospects
ISG-ES 3	(61-75)	Good Investment Strength Prospects
ISG-ES 4	(40-60)	Medium Investment Strength
ISG-ES 5	(less than 40)	Low Investment Strength Prospects

A single (+) sign or a double (++) could be added to express relatively higher investment strength prospect within the category.

## RATING COMMITTEE MEMBERS



Ms. Ariel Lei Yang is the Vice President of China Chengxin International Credit Rating Co., Ltd, and Executive Director and CEO of China Chengxin (Asia Pacific) Credit Ratings Co., Ltd. She is in charge of the company's international business and branding. She is also the head of the company's Shenzhen and Hong Kong offices.

Ms. Yang joined CCX Group in 2011 as the Chief of Staff to the Chairman, and later as General Manager of International Business Department and Managing Director of CCXI. Ms. Yang holds BA in Journalism from Wuhan University and MA in Mass Communication from UK.



Ms. Christine Zhang is the General Manager of Overseas Business Department of CCXI, responsible for rating service for sovereign and multinational institutions, as well as Panda bond rating. Ms. Zhang is also the member of Credit Rating Committee in CCXI & CCXAP, responsible for panda bond and offshore bond rating. Ms. Zhang and her team has undertaken most of the MDB, sovereign, sub-sovereign cases

Ms. Zhang earned Bachelor Degree of Economics, Master Degree of Macro Economics from Renmin University of China.



Ms. Farah Perveen Khan is a Senior Analyst and a Rating Committee member at IIRA. She possesses over 10 years of experience in credit ratings covering corporate and financial institutions (FIs) domains; Since August 2016, Ms. Farah has been working as a senior financial analyst at IIRA where she is primarily involved in conducting fiduciary and credit ratings of Islamic FIs within MENA region, while she also worked on sovereign and corporate ratings. Previously, Ms. Farah was associated with CRISIL – an S&P Global Company in India, for about 9 years.

She holds a BMS (Bachelor of Management Studies, with elective in Finance) from University of Mumbai, India and has completed Chartered Accountants Professional Examination II – The Institute of Chartered Accountants of India.



Mr. Hector Alvarez is an Associate Director at Rating-Agentur Expert RA where he oversees a wide portfolio of rated entities in the insurance and banking sectors as well as sovereigns. Mr. Alvarez also introduced the ESG Rating Methodology and leads its continuous improvement process. Previously, Hector worked as an advanced manufacturing engineer at Nemak in Monterrey, Mexico and was part of the collateral management team at State Street Bank in

Frankfurt. He graduated from Tecnológico de Monterrey with a degree in Industrial and Systems Engineering and from Frankfurt School of Finance & Management where he completed a Master of Finance with a Corporate Finance concentration. Recently, he obtained the International Certificate in Corporate Finance from Columbia Business School.



Mr. Javed Callea is Advisor in VIS since 2010. He is a professional in the financial sector with 45 years of experience mostly in the financial institutions with certain exposure to service and infrastructure sectors in Pakistan. He has held the position of Chief Executive of a leasing company for 10 years. His core areas of expertise cover leasing, development financing, project management, investment & merchant banking, strategic investment management and real estate. He has also served as Member Finance of Water & Power Development Authority of Pakistan and as member of the Inquiry committee on stock exchange crises in 2000 commissioned by the SECP. He earned his MBA degree from the Institute of Business Administration in 1974.



Mr. Shahid Ghaffar is a seasoned investment profession with more than 35 years of experience working in capital markets including monitoring of projects, the debt/fixed income portfolio, the equity portfolio and trading desk. He has served as the MD of NIT, Head of Investor Relations & Corporate Representation for HBL, CEO for HBL Asset Management Limited (2005-2012) and Executive Director / Commissioner (Aug.2000-Nov.2005) at

the Securities and Exchange Commission of Pakistan.

Mr. Ghaffar holds an MBA Degree from Gomal University, D.I.Khan, Khyber Pakhtunkhwa (formerly NWFP), Pakistan.



Ms. Svetlana Grishankova is the Managing Director of Rating-Agentur Expert RA GmbH since 2013. She holds BSc degrees from the Higher School of Economics in Moscow and University of London, as well as MSc degree in Finance and Economics from the London School of Economics. Ms Grishankova has been working in private equity in London and following that held leading positions in a number of investment projects. She was managing the rating activity in Europe of Expert RA (Moscow) and then

fully involved in the foundation of Rating-Agentur Expert RA GmbH in Frankfurt being responsible for the strategy and development of the agency, including its process of obtaining ESMA registration.



Ms. Sabeen Saleem, CFA is CEO of IIRA since 2012. She has 20 years of multifaceted experience in financial risk assessments spanning Banks, Manufacturing Concerns, Fund Managers and Insurance Companies, with specialized focus on Islamic finance in all of these areas. Sabeen has extensive experience working in developing countries. She has been associated with the credit ratings industry for over a decade and has pioneered ratings in the social sector of Pakistan while also being actively

involved in research endeavors of considerable significance in the area of Islamic finance. She has a Masters degree from the Institute of Business Administration, Karachi and is also a CFA charter holder.

## PROFILES OF PARTICIPATING RATING AGENCIES

### VIS CREDIT RATING COMPANY LIMITED - PAKISTAN

VIS Credit Rating Company Limited (VIS), approved by Securities & Exchange Commission of Pakistan and State Bank of Pakistan, is operating as a 'Full Service' rating agency providing independent rating services in Pakistan.

VIS is a joint venture between Vital Information Services (Pvt.) Limited (VIS) — Pakistan's only independent financial research organization, Pakistan Stock Exchange Limited and ISE Towers RIET Management Company Limited.

Previously in 2001, Japan Credit Rating Agency, Japan (JCRA) and VIS had entered into a Joint Venture Agreement whereby JCRA acquired 15% shareholding in the then company (DCR-VIS Credit Rating Co. Ltd.) which has subsequently been bought back by VIS in December 2018. DCR-VIS Credit Rating Co. Ltd. was incorporated in 1997 as a joint venture between VIS, Karachi Stock Exchange Guarantee Limited (KSE), Islamabad Stock Exchange Limited (ISE) and Duff & Phelps Credit Rating Co., USA (DCR). Subsequent to DCR's merger with Fitch IBCA, DCR sold its interests in DCR-VIS to VIS in 2001.

### CHINA CHENGXIN INTERNATIONAL CREDIT RATING COMPANY LIMITED - CHINA

China Chengxin International Credit Rating Co., Ltd. ("CCXI") was founded in October 1992. Approved by the head office of the People's Bank of China, CCXI was the first nation-wide credit rating agency in China.

CCXI, together with its wholly-owned subsidiaries CCXR and CCXAP, is officially qualified to provide full-range rating services in China's inter-bank bond market and exchange bond market, as well as offshore market. With the largest business operations and the best quality of services, CCXI enjoys the highest reputation of credit rating services in capital markets.

Leading China's credit rating industry in the past 26 years, CCXI has maintained the largest market share across the capital market, winning a dominant position in structured products and panda bonds. Almost all the first ratings of bonds and financing instruments in China were undertaken by CCXI. CCXAP is the first mainland Chinese rating agency to obtain Type 10 rating license in the strictly-regulated HK market. Qualified to provide credit rating services in the offshore and international market, CCXAP has already served clients from more than a dozen industries.

CCXI has operations and offices across China with regional headquarters in Beijing, Shanghai, Shenzhen, Wuhan and Hong Kong. CCXI has nearly 700 analysts, more than half of whom have overseas education and/or working background.

### ISLAMIC INTERNATIONAL RATING AGENCY - BAHRAIN

IIRA has been set up to provide independent assessments to issuers and issues that conform to principles of Islamic finance. IIRA's special focus is on development of local capital markets, primarily in the region of the Organization of Islamic Countries (OIC) and to provide impetus through its ratings to ethical finance, across the globe.

IIRA was founded as an infrastructure institution for the support of Islamic finance as conceived by the Islamic Development Bank (IDB). This puts IIRA in league with system supporting entities like AAOIFI and IFSB. The IDB remains prominent shareholder, and maintains oversight through its nominee, as Chairman to the Board of Directors.

Headquartered in the Kingdom of Bahrain, IIRA commenced operations in 2005 and launched its series of conceptually distinctive methodologies, beginning 2011. IIRA believes that the strength of Islamic finance lies in its commitment to fairness. This renders the manner in which a transaction is carried out, as important as the transaction itself. IIRA's specialized focus on organizational governance and conduct of Shari'ah, augments the rating process, and incorporates the unique features of Islamic finance in a way that broadens the quality perspective.

### RATING-AGENTUR EXPERT RA GMBH - GERMANY

Rating-Agentur Expert RA GmbH (trademark RAEX) is a business unit of International group «RAEX» in the European Union. The agency is operating since 2013 and its office is located in Frankfurt am Main (Germany).

The main aim of this credit rating agency is assigning credit ratings in accordance with the most stringent regulatory regimes and codes of ethics, which are in force in the European Union.

## VISIT

Belt & Road – Investment Research & Information Services Portal  
[www.br-iris.com](http://www.br-iris.com)

## CONTACTS

### **VIS Credit Rating Company Limited**

VIS House, 128/C, 25th Lane Off Khayaban-e-Ittehad,  
Phase VII, DHA, Karachi, Pakistan

Tel: +92-21-35311861-72

Fax: +92-21-35311873

Web: [www.vis.com.pk](http://www.vis.com.pk)

### **China Chengxin International Credit Rating Company Limited**

Building 6, Galaxy SOHO, No.2 Nanzhugan hutong, Chaoyangmennei Avenue,  
Dongcheng District

Beijing, People's Republic of China

Tel: +86 (10) 6642 8877

Fax: +86 (10) 6642 6100

Web: [www.ccxr.com.cn](http://www.ccxr.com.cn)

### **Islamic International Rating Agency**

P.O. Box 20582, Manama

Kingdom of Bahrain

Tel: +973 17211606

Fax: +973 17211605

Web: [www.iirating.com](http://www.iirating.com)

### **Rating-Agentur Expert RA GmbH**

Walter-Kolb-Straße 9-11, 60594

Frankfurt am Main,

Germany

Tel: +49 69 3085 4500

Web: [www.raexpert.eu](http://www.raexpert.eu)