The Pakistan Credit Rating Agency Limited

# Rating Report

## HBL Microfinance Bank Limited | Tier 2 Capital TFC | PKR 1.5bln | TBI

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 03-Nov-2023 | A | - | Stable | Preliminary | - |

**Rating Rationale and Key Rating Drivers**

The ratings assigned to the HBL Microfinance Bank (HBL MfB) underpin the Bank's affiliation with Habib Bank Limited – one of the largest banks in the country and the Aga Khan Fund for Economic Development Group. As per management representation, HBL Microfinance Bank has largest deposit base in the industry amounting to PKR 108bln at end-Jun23 (end Dec'22: PKR 116bln). Non-performing loans stood at PKR 2.87bln (3.0%) as per reviewed accounts at end-Jun23 (end Dec'22: PKR 2.14bln (2.4%). The advances (net) clocked in at PKR 91.69bln at end-Jun23 (end-Jun22: PKR 72.46bln, end-Dec22: PKR 85.38bln). The markup income clocked in at PKR 15.23bln during 6MCY23 (6MCY22: PKR 11.25bln, CY22: PKR 24.06bln), depicting sizable growth of 35%, attributable to enhanced micro-credit loan. The Bank's bottom line stood at PKR 731mln during 6MCY23 (6MCY22: PKR 801mln, CY22: PKR 1,225mln). Capital Adequacy Ratio was recorded at 16.3% as of end-Jun'23. HBL has invested Rs 4bln in equity in the past 3 years, along with providing a subordinated debt in 2020 amounting to Rs 2bln, this depicts HBL's commitment as a sponsor and faith in performance and growth of HBL Microfinance Bank Ltd. The bank is in process of issuing Tier II TFC of PKR 1.5bln to strengthen the CAR. As per management representation, the impact of COVID-19 and flood-related losses are already well covered and that the watchlist accounts are not sizeable enough to create a significant impact. The CAR of the bank meets the regulatory requirement and the management is confident to augment it further through internal generation and issuance of T2 capital. This is crucial to the ratings.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | HBL Microfinance Bank Limited \| Tier 2 Capital TFC \| PKR 1.5bln \| TBI |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Debt Instrument Rating |
| **Applicable Criteria** | Methodology \| Microfinance Institution Rating(Jun-22),Methodology \| Rating Modifiers(Apr-23),Methodology \| Debt Instrument Rating(Aug-23) |
| **Related Research** | Sector Study \| Microfinance(Sep-23) |
| **Rating Analysts** | Muhammad Atif Chaudhry \| Atif.Chaudhry@pacra.com \| +92-42-35869504 |

## Issuer Profile

**Profile** The HBL Microfinance Bank Ltd, “the Bank”, was incorporated in 2002 as a nationwide microfinance bank; licensed by the State Bank of Pakistan. The Bank was established through a structured transformation of the credit and savings section of the Aga Khan Rural Support Program (AKRSP), an integrated development program to pioneer the microfinance sector in the country since 1982 in Gilgit-Baltistan and Chitral. The Bank is a fast-growing microfinance bank currently operating with a nationwide network of 217 (end-Dec22: 217, end-Dec21: 213) branches with its head office located in Islamabad. The Bank offers a diversified range of financial products and services to low-income wage earners as well as the self-employed community. Micro-lending products include (i) Agri-Loan (ii) Livestock (iii) Micro-enterprise (iv) Housing and (v) Others.

**Ownership** The Bank is majorly owned by Habib Bank Limited (HBL) (79.92%), followed by Aga Khan Agency for Microfinance (AKAM) (12.05%), Aga Khan Rural Support Programme (AKRSP) (4.46%), and Japan International Cooperation Agency (JICA) (3.57%). The ownership structure is expected to stay stable in the foreseeable future. The business acumen of the Bank is considered strong due to its affiliation with HBL and AKAM. HBL is renowned as one of the biggest Banks in Pakistan.

**Governance** The Board comprises eight directors; which include, four representatives of Habib Bank Limited, two representatives of Aga Khan Agency for Microfinance, one representative of Aga Khan Rural Support Programme, and one representative from Japan International Cooperation Agency. The Board is chaired by Mr. Rayomond Kotwal – currently the Chief Financial Officer of HBL. He has over three decades of experience and has worked in senior finance roles with United Bank Limited, NIB Bank Limited, Citibank NA, Citi Cards Canada Inc., and ICI Pakistan Limited. All of the Board members are experienced professionals who carry diversified expertise as well as a strong technical skillset. The majority of the members have banking experience which is an added advantage. All of the members are heading different high-profile organizations. The Board has six committees in place: (i) Human Resource Committee (ii) Board Risk and Compliance Committee (iii) Board Audit Committee (iv) Information Technology Committee (v) Financial Inclusion & Sustainability Committee & (vi) Board Remuneration Committee. During the year, three meetings were held and attended by an average of eight members of the board. KPMG Taseer Hadi & Co. are the external auditors of the bank. They expressed an unqualified opinion on the financial statements for the year ending December 31, 2022. The internal audit department directly reports to the audit committee creating an aspect of independence.

**Management** The Bank has a horizontally spread organizational structure comprising ten departments; whereas, nine departments directly report to the CEO. Also, the reporting lines and job descriptions at each level are well-defined. The management positions are filled by qualified professionals to strengthen departmental results. Mr. Amir Khan joined the Bank as CEO in Jun'12. He brings with him over 30 years of extensive experience in consumer and commercial banking. Mr. Rizwan Maqsood is the CFO of the Bank. The Bank has designated various management committees to manage and oversee operational efficacy. The Bank has a strong MIS infrastructure which includes system-generated reports and detailed live dashboards for efficient and effective decision-making. The Bank has in place a separate Risk Management department to oversee various risks including credit, operational, and market risks. The Risk Management Committee meets quarterly to ensure that the risk profile of the Bank remains within BoD’s approved limit. Last year, the Bank upgraded its IT infrastructure, for its core banking and other critical systems, housed in a state-of-the-art data center housed in its Head Office with an offsite DR site housed in a Tier 3 data center. During the year Bank is in the process of upgrading its Core Banking System (CBS) to the latest version of Flexcube by Oracle. The CBS is being enhanced with various features and functionalities to keep it abreast with the evolving business and stringent regulatory requirements.

**Business Risk** Pakistan's Microfinance Industry comprises 50 microfinance providers including 32 microfinance institutions (MFIs). During 3MCY23, active borrowers of the industry increased to 9.25mln borrowers reflecting growth of 1.75% from the last quarter. Similarly, the GLP surpassed PKR 509.58bln, an increase of ~3.72% compared to last quarter. Further segregation reveals that MFB’s portfolio closed at PKR 394.421bln while NBMFC’s portfolio stood at PKR 115.1bln. In the case of MFBs, PAR > 30 days increased to 9.5% (CY22: 8.8%) primarily attributable to the impact of the recent floods in the country. The bank secures 18.02% market share amongst the microfinance banks as of end-Jun'23 in terms of GLP. As per reviewed accounts, the markup income clocked in at PKR 15.23bln during 6MCY23 (6MCY22: PKR 11.25bln, CY22: PKR 24.06bln, CY21: PKR 15.28bln), depicting sizable growth of 35% H1’23 vs H1’22, attributable to enhanced micro-credit loan. Net markup income clocked in at PKR 5.23bln during 6MCY23 (6MCY22: PKR 4.24bln, CY22: PKR 10.42bln, CY21: PKR 8.98bln). During 6MCY23, the Bank's non-markup expenses increased by 18% to PKR 4.57bln (6MCY22: PKR 3.87bln, CY22: PKR 8.15bln, CY21: PKR 6.27bln). During 6MCY23, the non-mark-up income of the bank witnessed an increase to PKR 1.24bln (6MCY22: PKR 986mln, CY22: PKR 2.11bln, CY21: PKR 1.43bln) primarily attributable to enhanced fee and commission income. Despite the provisioning expense of PKR 975mln in 6MCY23 (6MCY22: PKR 1,088mln, CY22: PKR 2,581mln, CY21: PKR 1,884mln), the Bank's net profitability, amid significant policy rate increase, remained at PKR 731mln during same period (6MCY22: PKR 801mln, CY22: PKR 1,225mln, CY21: PKR 1,556mln). HBL MfB has upgraded the Loan Origination System (LoS) to Customer Management Solution – an end-to-end digital model used to automate the processes and reduce the turnaround time and has been implemented in 170+ locations at end-Jun’23. Customer Management Solution will be further implemented in 186 locations of the Bank, adding convenience for the customer and robust delivery of service. Branchless Banking (FirstPay) has seen tremendous growth and more than 1.27m+ wallets have been opened since its launch at end-Sep'22.

**Financial Risk** The advances (net) clocked in at PKR 91.69bln at end-Jun23 (end-Jun22: PKR 72.46bln, end-Dec22: PKR 85.38bln). While non-performing loans stood at PKR 2.87bln (3.0%) as per reviewed accounts at end-Jun23 (end Dec'22: PKR 2.14bln (2.4%). At end-Jun23 the PAR-30 ratio stood at ~3.0% (end-Dec'22: ~2.4%%, end-Dec'21: ~3.9%). The investment book clocked in at PKR 20.32bln as of end-Jun'23 (end-Dec'22: PKR 30.39bln, end-Dec'21: PKR 13.73bln) majorly vested in government securities. Investment book to total assets declined to ~14.7% at end-Jun23 (end-Dec'22: ~22.0%, end-Dec'21: ~12.9%). The Bank's funding is majorly fueled through deposits clocked in at PKR 108.27bln at end-Jun23 (end-Dec'22: PKR 116.06bln, end-Dec'21: PKR 91.36bln), where the major contribution arises from demand deposits. The total borrowing recorded a slight uptick to stand at PKR 10.02bln at end-Jun23 (end-Dec'22: PKR 8.57bln, end-Dec'21: PKR 4.88bln). At end-Jun23 the Bank's gross advances-to-deposit ratio (ADR) increased to ~87.2% (end-Dec'22: ~75.7%, end-Dec'21: 64.8%) attributable to an increase in advances book. The bank's liquid assets as a percentage of deposits declined to ~30.9% at end-Jun23 (end-Dec22: ~38.6%, end-Dec21: 43.9%) primarily due to a sizable increase in the deposit base. Capital Adequacy Ratio (CAR) stood at 16.3% as of end-Jun 23 (end-Dec'22: 16.4%, end-Dec'21: 17.0%), above the regulatory requirement. The equity base recorded a good increase to PKR 14.35bln at end-Jun23 resulting mainly from profitability.(end-Dec'22: PKR 13.23bln, end-Dec'21: PKR 10.08bln). The management has represented that the impact of COVID-19 and flood-related losses are already well covered and that the watchlist accounts are not sizeable enough to create a significant impact. The CAR of the bank meets the regulatory requirement and the management is confident to augment it further through internal generation and issuance of T2 capital. This is crucial to the ratings.

## Instrument Rating Considerations

**About The Instrument** HBL Microfinance Bank Limited is in the process of issuing privately placed, fully paid up, unsecured, and Subordinated Debt Instruments, rated in the nature of Tier 2 Capital Term Finance Certificates of up to PKR 1,500 million (inclusive of a Green Shoe option of PKR 500 million) and may subsequently be listed to contribute towards the Bank’s Supplementary/Tier II Capital to strengthen capital adequacy. The instrument has a tenor of 10 years from the date of issue. The profit will be paid semi-annually in arrears at the rate of 6MK+200bps p.a calculated on a 365-day basis on the outstanding principal amount. The first such profit payment is falling due at the end of the sixth 6th ) months from the Issue Date and subsequently every six (06) months thereafter. The principal of TFC shall be redeemed in bullet payment at maturity. The issuer may call the TFCs at par (either partially or in full), with prior approval of SBP, on any profit payment date after five (05) years from the Issue Date, subject to not less than 30 calendar days "prior notice being given to the investors". The Call Option once announced will not be revocable. Further, the call option is exercisable if HBL Microfinance Bank Limited's MCR and CAR requirements are in compliance with the requirements prescribed by SBP. As per the lock-in clause requirement for tier II issues, neither profit nor principal can be paid (even at maturity) in respect of the TFC. If such payment will result in a shortfall in the Bank's minimum Capital Requirement ("MCR") or CAR or result in an increase in an existing shortfall in MCR and CAR or result in an increase in any existing shortfall in MCR and CAR. The TFC will be subject to a loss absorbency clause, upon the occurrence of a point of non-viability event, SBP may fully or permanently convert the TFCs into common shares of the Bank.

**Relative Seniority/Subordination Of Instrument** The instrument will rank pari passu with other Tier II instruments and superior to any Additional Tier I instruments.

**Credit Enhancement** The instrument is unsecured.

PKR mln

| HBL Microfinance Bank Limited<br>Unlisted Public Limited | Jun-23<br>6M | Dec-22<br>12M | Jun-22<br>6M | Dec-21<br>12M | Dec-20<br>12M |
|---|---|---|---|---|---|
| **A BALANCE SHEET** | | | | | |
| 1 Total Finances - net | 94,377 | 87,851 | 74,638 | 59,245 | 43,411 |
| 2 Investments | 20,329 | 31,379 | 24,065 | 14,231 | 14,542 |
| 3 Other Earning Assets | 5,402 | 1,481 | 13,780 | 22,467 | 6,270 |
| 4 Non-Earning Assets | 21,102 | 24,289 | 16,599 | 16,450 | 13,924 |
| 5 Non-Performing Finances-net | (2,686) | (2,474) | (2,179) | (2,372) | (1,784) |
| **Total Assets** | 138,524 | 142,526 | 126,902 | 110,021 | 76,363 |
| 6 Deposits | 108,271 | 116,063 | 105,255 | 91,363 | 61,726 |
| 7 Borrowings | 10,022 | 8,571 | 6,805 | 4,883 | 4,021 |
| 8 Other Liabilities (Non-Interest Bearing) | 5,880 | 4,665 | 3,974 | 3,692 | 3,927 |
| **Total Liabilities** | 124,174 | 129,299 | 116,035 | 99,937 | 69,675 |
| **Equity** | 14,350 | 13,226 | 10,867 | 10,083 | 6,688 |
| **B INCOME STATEMENT** | | | | | |
| 1 Mark Up Earned | 15,231 | 24,060 | 11,251 | 15,276 | 11,404 |
| 2 Mark Up Expensed | (10,004) | (13,641) | (6,043) | (6,294) | (4,740) |
| 3 Non Mark Up Income | 1,236 | 2,109 | 986 | 1,351 | 876 |
| **Total Income** | 6,463 | 12,528 | 6,194 | 10,333 | 7,540 |
| 4 Non-Mark Up Expenses | (4,568) | (8,145) | (3,858) | (6,271) | (5,157) |
| 5 Provisions/Write offs/Reversals | (975) | (2,581) | (1,088) | (1,804) | (1,567) |
| **Pre-Tax Profit** | 919 | 1,802 | 1,249 | 2,258 | 815 |
| 6 Taxes | (188) | (577) | (448) | (702) | (241) |
| **Profit After Tax** | 731 | 1,225 | 801 | 1,556 | 574 |
| **C RATIO ANALYSIS** | | | | | |
| **1 Performance** | | | | | |
| Portfolio Yield | 30.2% | 29.7% | 29.5% | 28.4% | 25.7% |
| Minimum Lending Rate | 34.1% | 32.8% | 33.0% | 28.0% | 26.5% |
| Operational Self Sufficiency (OSS) | 105.9% | 107.4% | 111.4% | 115.7% | 107.1% |
| Return on Equity | 10.6% | 10.5% | 15.3% | 18.6% | 8.6% |
| **2 Capital Adequacy** | | | | | |
| Net NPL/Equity | 18.7% | 18.7% | 20.1% | 23.5% | 26.7% |
| Equity / Total Assets (D+E+F) | 10.4% | 9.3% | 8.6% | 9.2% | 8.8% |
| Tier I Capital / Risk Weighted Assets | 12.3% | 11.3% | 10.6% | 12.4% | 10.6% |
| Capital Adequacy Ratio | 16.3% | 15.0% | 15.0% | 17.0% | 15.0% |
| Capital Formation Rate [(Profit After Tax - Cash Dividend ) / Equity] | 11.1% | 12.1% | 15.9% | 23.3% | N/A |
| **3 Funding & Liquidity** | | | | | |
| Liquid Assets as a % of Deposits & Short term Borrowings | 31.2% | 39.5% | 43.1% | 46.2% | 41.7% |
| Funding Diversification (Deposits/(Deposits+Borrowings+Grants)) | 91.5% | 93.1% | 93.9% | 94.9% | 93.9% |
| Net Advances to Deposits Ratio | 84.7% | 73.6% | 68.8% | 62.2% | 67.4% |

## Credit Rating

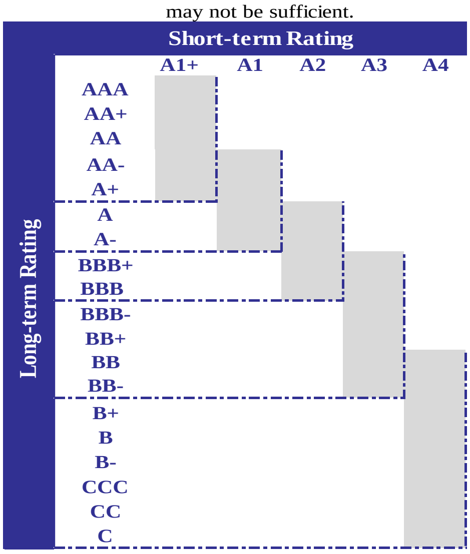
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long-term Rating

| Scale | Definition |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>AA- | **Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| A+<br>A<br>A- | **High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions. |
| BBB+<br>BBB<br>BBB- | **Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. |
| BB+<br>BB<br>BB- | **Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met. |
| B+<br>B<br>B- | **High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. |
| CCC<br>CC<br>C | **Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default. |
| D | Obligations are currently in default. |

### Short-term Rating

| Scale | Definition |
|---|---|
| A1+ | The highest capacity for timely repayment. |
| A1 | A strong capacity for timely repayment. |
| A2 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. |
| A3 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial |
| A4 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |




**The correlation shown is indicative and, in certain cases, may not hold.*

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

## Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

**Rating Team Statements**
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

**Restrictions**
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

**Conduct of Business**
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

**Independence & Conflict of interest**
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

**Monitoring and review**
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)

**Probability of Default**
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

**Proprietary Information**

## Regulatory and Supplementary Disclosure

| Nature of Instrument | Size of Issue (PKR) | Tenor | Security | Book Value of Assets (PKR mln) | Nature of Assets | Trustee |
|---|---|---|---|---|---|---|
| Privately placed, fully paid up, unsecured, and Subordinated Debt Instruments, rated in the nature of Tier 2 Capital Term Finance Certificates of up to PKR 1,500 million (inclusive of a Green Shoe option of PKR 500 million) and may subsequently be listed. | PKR 1,500mln (inclusive of a Green Shoe option of PKR 500mln) | 10 years from the date of issue | Unsecured | N/A | N/A | TBA |

| | |
|---|---|
| **Name of Issuer** | HBL Microfinance Bank Limited |
| **Issue Date** | Dec-23 |
| **Maturity** | Dec-33 |
| **Profit Rate** | 6MK+2.0% |

### HBL Microfinance Bank Limited | Tier 2 Capital TFC | PKR 1.5bln | TBI | Redemption Schedule

| Sr. | Due Date Principal | Opening Principal | 6M Kibor | Markup/Profit Rate (6MK+2.0%) | Markup/Profit Payment | Principal Payment | Total | Principal Outstanding |
|---|---|---|---|---|---|---|---|---|
| | | PKR | | | PKR | | | |
| Issue Date | Dec-23 | 1,500,000,000 | | | | - | - | 1,500,000,000 |
| 1 | Jul-24 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 2 | Dec-24 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 3 | Jul-25 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 4 | Dec-25 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 5 | Jul-26 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 6 | Dec-26 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 7 | Jul-27 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 8 | Dec-27 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 9 | Jul-28 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 10 | Dec-28 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 11 | Jul-29 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 12 | Dec-29 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 13 | Jul-30 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 14 | Dec-30 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 15 | Jul-31 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 16 | Dec-31 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 17 | Jul-32 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 18 | Dec-32 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 19 | Jul-33 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | - | 186,509,589 | 1,500,000,000 |
| 20 | Dec-33 | 1,500,000,000 | 22.80% | 24.80% | 186,509,589 | 1,500,000,000 | 1,686,509,589 | - |
| | | | | | | | | |
| | | | | | **3,730,191,781** | **1,500,000,000** | **5,230,191,781** | |