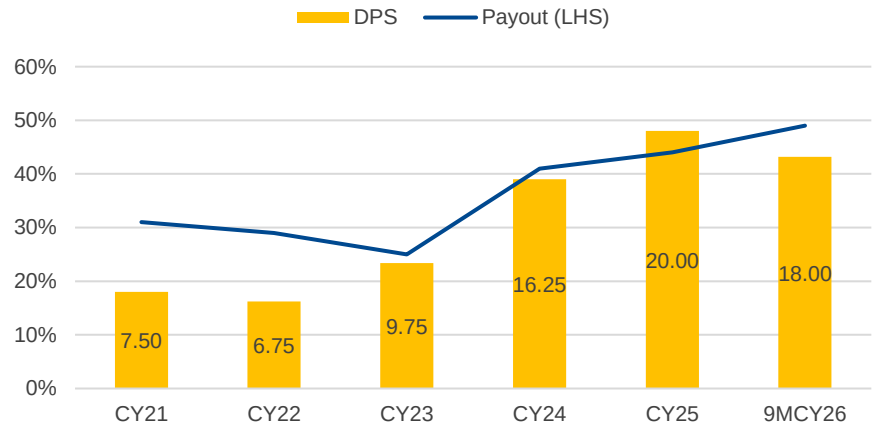
HBL: Funding edge sharpens; payouts on the rise

- Habib Bank Limited's (HBL) earnings quality has improved during the year owing to cheaper CA-led funding, increase in FX income and contained OpEx growth. We believe NII should pick up as floating-rate PIBs and loans reprice. Sound asset quality and a reserve route to the Rs6bn MCR gap leave room for payouts to keep rising. We have a Buy call on HBL with a Jun-27 TP of Rs360 (~22% capital upside) and a DY of 9%.
- HBL posted 9MCY26 consolidated PAT of Rs54.04bn (EPS: Rs36.84), up 5.4% YoY, while 3QCY26 PAT came in at Rs19.6bn (EPS: Rs13.33), up 16% YoY, alongside a cash dividend of Rs6.00/share, taking 9MCY26 payout to Rs18.00/share. To note, dividend payout ratio has doubled over last three years.
- Domestic current account (CA) deposits rose 15% to Rs2.05trn since Dec-2025, lifting the CA mix to 40%. Consumer financing crossed Rs200bn (highest in the industry), while asset quality remained sound with infection ratio at ~4.5% and specific coverage at 85%.
- HBL management expects the 50bp policy rate hike to weigh on NIMs initially as deposits reprice immediately, with NII set to benefit from the following quarter as variable-rate advances and floating-rate PIBs (55% of the investment book) reprice.

Habib Bank Limited (HBL) reported a strong financial performance for 9MCY26, posting a consolidated profit after tax (PAT) of Rs54.04bn (EPS: Rs36.84), reflecting a 5.4% YoY growth. For the recent 3QCY26, HBL posted consolidated PAT of Rs19.6bn (EPS: Rs13.33), 16% YoY growth, and announced a cash dividend of Rs6/share. The outgoing quarter was the bank's highest-ever quarterly profit backed by a record quarterly PBT of Rs41.9bn, while the payout took 9MCY26 cumulative dividend to Rs18/share.

Dividend payout ratio doubled over last three years



Source: Company accounts, JS Research

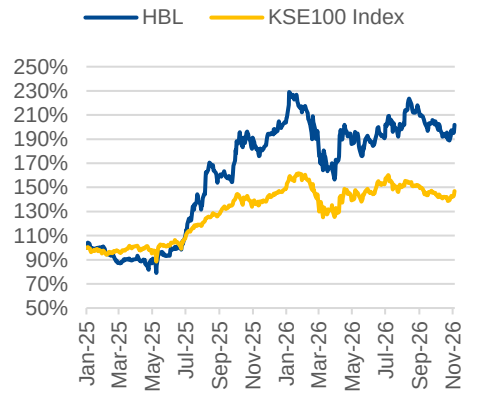
Deposit franchise continues to strengthen

HBL's deposit franchise continues to demonstrate strong growth, with domestic CA deposits up from Rs1.78trn in Dec-2025 to Rs2.05trn as at Sep-2026 (up 15%, Rs273bn). The CA mix has reached 40% in Sep-2026, with further room for improvement. Total deposits currently are at Rs5.9trn, up Rs810bn YoY, while

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Bloomberg Code: HBL PA
Target Price: Rs360
Market Price: Rs295.44
Market Cap: Rs433bn, US$1,567mn
1-yr ADTO: 1.8mn shares, Rs553mn, US$2.0mn
1-yr High / Low: Rs363.83 / 243.05
Estimated free float: 587mn shares (40%)

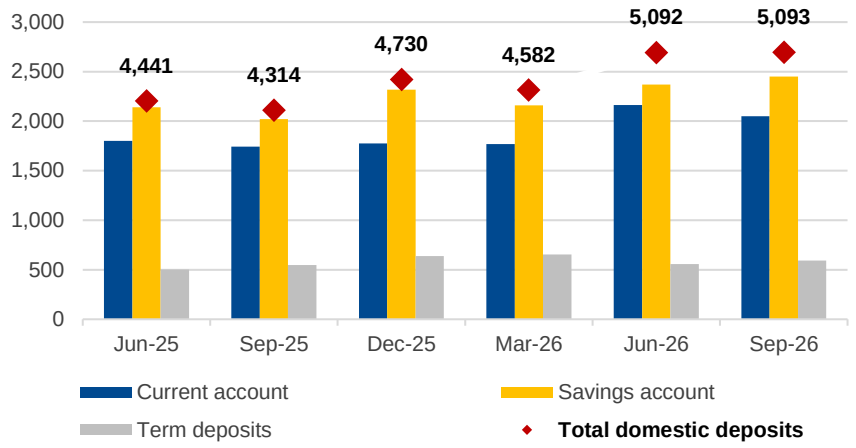
Price performance relative to KSE100



Source: PSX, JS Research

average domestic CA balances grew 16% YoY (+Rs236bn). Term deposits declined to Rs592bn from Rs637bn in Dec-2025, while international deposits remain stable at ~US$2.3bn. Bank's cost of deposits has declined versus last year despite the rise in interest rates.

Deposit mix trend



Source: Company accounts, JS Research

HBL: Key statistics

(Rs mn)	CY25	CY26E	CY27F
NII	**275,501**	**283,125**	**325,250**
YoY Growth	*12%*	*3%*	*15%*
NIMs	**4.5%**	**3.9%**	**4.2%**
Non-markup income	85,606	89,444	90,673
OpEx	203,893	224,601	245,030
PAT	**66,716**	**74,780**	**82,450**
YoY Growth	*14%*	*16%*	*5%*
EPS (Rs)	45.48	50.97	56.20
DPS (Rs)	20.00	24.00	26.00
Cost-to-income	56.8%	57.7%	58.0%
Payout ratio	43.9%	47.1%	46.3%

Source: Company accounts, JS Research

Branch strategy shifts from expansion to productivity

Deposit mobilisation is supported by the retail franchise, with 84 branches opened during the year, taking the total network to over 2,000 branches. Islamic branches represent 36% of the total branch network, with the bank operating ~658 Islamic branches and ~500 Islamic windows. More than 50% of its network can now offer Islamic products and it is confident of meeting its conversion objectives by Dec-2026.

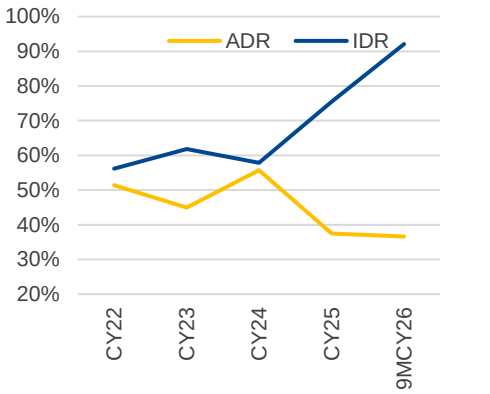
Management expects digital to eventually become the primary channel, with branches focusing on value-added services, although branches remain the primary driver of profitability for now. The Temenos core banking system has been rolled out across 800 branches, with further implementation milestones expected during CY27.

Advances growth broad-based; largest consumer book

HBL's domestic advances have recorded healthy growth across the corporate and commercial segments, while the international loan portfolio also continued to expand steadily. Total advances stood at ~Rs2.2trn as at Sep end. Consumer financing crossed Rs200bn, the highest in the industry, with the credit card portfolio reaching Rs66bn, supported by HBL's leading market position.

Islamic financing accounted for ~20% of total advances, with the Islamic banking balance sheet exceeding Rs1.3trn as at Sep-2026. The bank intends to develop Shariah-compliant alternatives across its existing product range, including a potential covered card as an alternative to conventional credit cards. Management has shared that its recently launched Islamic personal finance product could provide a foundation for future card-based financing solutions, although no specific launch timeline was provided.

ADR IDR trend



Source: Company accounts, JS Research

Asset quality remains sound

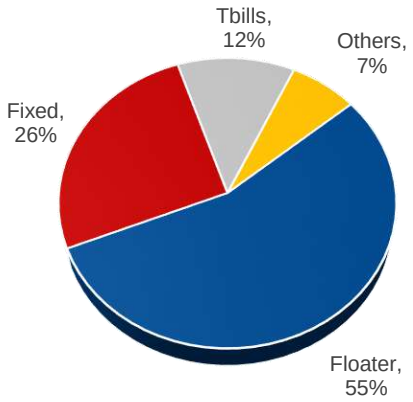
Asset quality remains sound, with the infection ratio at ~4.5% and specific coverage at 85%, while the bank continues to maintain general provisions as a cushion against potential contingencies. The bank holds ~Rs13.2bn in general provisions over and above IFRS 9 ECL. Provisions have not risen YoY and recoveries remain strong, with the recovery unit also undertaking remediations and restructurings. While stresses have been observed, no actual losses have materialised so far.

Investment book appropriately positioned

As of 9MCY26, HBL's investment portfolio comprises 55% floating-rate PIBs, 12% T-bills and 26% fixed-rate instruments. The fixed-rate portfolio has a duration of 3.2 years, while the overall portfolio duration stands at 1.12 years. Floaters and T-bills are largely funded through the savings account base and some leverage, while the fixed-income book is essentially a current account play, which management believes keeps the balance sheet hedged on both sides of the yield curve.

Following the 50bp policy rate hike, there could be initial NIM pressure due to immediate deposit repricing, as loans reprice on the first day of the following quarter. However, the subsequent repricing of variable-rate advances and floating PIBs is expected to support NII growth in the coming quarter. The bank is already compliant with the SBP circular on reclassification of investments from the banking book to the trading book, and therefore no transition or capital impact is expected.

Investment Portfolio as at Sep-2026



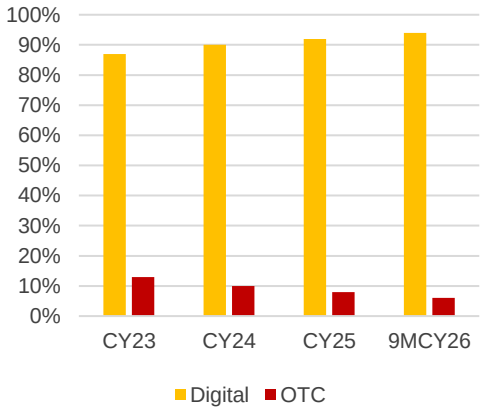
Source: Company presentation, JS Research

Non-funded income cushions margin compression

HBL's non-funded income remains strong during 9MCY26, with FX income growing 76% YoY and fee income also contributing positively, helping offset margin compression. Non-interest income is up 7.6% YoY to Rs73bn on the back of 15% growth in fees. Capital gains have been supported by a larger investment portfolio and proactive treasury positioning, amounting to Rs7.1bn in 9MCY26, of which around Rs4bn was realised in 3QCY26. Operating expenses increased by only 5% YoY (including international subsidiaries), with management prioritising cost containment rather than aggressive cost cutting.

Management attributes the rise in dividend income to cumulative dividends received from private equity investments covering the last few years; further dividends are expected next year, albeit at a lower quantum. A 1% reduction in the applicable tax rate also supported bottom-line growth. Profitability continued to improve sequentially, with domestic cost-to-income at ~52% and ROE at 17.5%.

Digital vs OTC transactions



Source: Company accounts, JS Research

Digital adoption gathers pace

Digital transaction throughput during 9MCY26 grew 36%, with 94.6% of transactions conducted digitally and only ~6% taking place through branches. Transaction banking flows reached Rs16trn (+21% YoY), collection volumes increased 22% and mobile banking payments rose 36% YoY to Rs11.1trn, while credit card spending increased 29% with a large market share of 35%. Management acknowledges the need to prepare for greater digital adoption and AI-led efficiencies, while continuing to optimise branch locations and improve branch productivity.

MCR gap to be bridged through reserves

SBP has increased the minimum capital requirement (MCR) to Rs20bn, with banks required to meet the threshold by 2031. HBL currently has paid-up capital of

Rs14bn, leaving a Rs6bn gap. Management believes that sufficient reserves are available to bridge the gap. The revised regulations allow statutory reserves to be counted towards the requirement, though these would then no longer be available for their other designated purposes; bank has yet to decide on the approach. The MCR for Islamic banking subsidiaries does not apply to HBL, as its Islamic operations run through its branch network rather than a separate subsidiary.

Key risks

Regarding the remittance scheme, with HBL's 10% market share, the potential impact of the revised home remittance scheme is there with banks now bearing the cost of the incentive scheme. HBL's share of the cost would be ~10% of the industry figure. We expect that the recently announced scheme could support formal remittance inflows. The bank expects the impact to become clearer over the next two quarters as the effectiveness of the new incentive schemes is assessed.

To note, HBL's New York case is independent of the previously reported penalty matter. Bank remains confident of a favourable outcome, noting that proceedings are progressing as scheduled and are expected to conclude in the near term.

Elevated sovereign exposure also remains a key risk alongside potential moderation in deposit growth or a weakening CASA mix.

Buy intact with ~31% total return potential

We reiterate our Buy rating for HBL with a Jun-2027 Target Price of Rs360. Our Target Price implies an upside of around 22%, while the stock trades at a compelling CY27E P/B of 0.8x vs industry's P/B of 1.3x.

The target price is derived using a justified Price-to-Book method, with key assumptions including a 12.5% risk-free rate, 6% equity risk premium, and an equity beta of 1.0, resulting in a cost of equity of 18.5%. Assuming a payout ratio of 49% (retention rate of 51%) and a sustainable RoE of 19.7%, this implies a growth rate of 10% and a justified P/B multiple of 1.15x. The stock also offers D/Y of 9% as per CY27 estimates.

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