



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Habib Metropolitan Financial Services Limited | BMR**

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**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Oct-2022	BMR2	-	Stable	Maintain	-
29-Oct-2021	BMR2	-	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

Habib Metropolitan Financial Services Limited ("HMFSL" or the "Company") is a public unlisted company primarily providing the services of equity brokerage to HNWI and corporate/institutional clients. The Broker Management Rating reflects the Company's association with a well-established bank, one of the banking sector's dominant players. The rating incorporates the Company's sponsor support, experienced management team, and the availability of a client services platform with quality research available to customers. The governance framework is considered satisfactory; however, the formation of board-level audit and risk management committees and the inclusion of independent directors with relevant experience would strengthen corporate governance. The Company has a lean organizational structure to manage its operations. The assigned rating also takes into account sound internal controls with adequately documented and disseminated internal policies. The Company has an in-house internal audit department, which ensures the implementation of the policies and procedures. The Company has established rigorous protocols regarding risk assessment by implementing KYC, CDD, AML, CFT, and whistle-blowing policies. The appointment of auditors from SBP's approved 'A' category list has strengthened the transparency. The IT infrastructure allows full integration of the front and back-office functions, allowing the generation of real-time reports. The Company has no proprietary trading book hence, less exposed to market risk. The average market share of HMFSL during 1HCY22 stands at ~1.6%; however, the brokerage income which clocked in at ~PKR 19mln for 1HCY22, lacks diversification. The Company reported a net loss of ~PKR 2.6mln during 1HCY22 compared to a profit of ~PKR 3.2mln in 1HCY21. The reduced profits are on account of condensed traded volume. The Company has an equity base of ~PKR330mln at end-June'22.

The ratings are dependent on the management's ability to increase and retain its market share and diversification of revenue base to improve its competitive position in the brokerage industry. Retention of key personnel, adherence to regulatory requirements, and sustainability of profits will remain imperative from the rating's perspective.

**Disclosure**

<b>Name of Rated Entity</b>	Habib Metropolitan Financial Services Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Assessment Framework   Broker Management Rating(Jun-22)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
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### Ownership

**Ownership Structure** Habib Metropolitan Financial Services Limited (herein referred to as 'HMFSL' or 'the Company') is subsidiary of Habib Metropolitan Bank Limited. HMFSL was incorporated in 2007 as a public limited company under the Companies Ordinance, 1984 (Now Companies Act, 2017) and commenced its operations in 2008.

**Stability** Habib Metropolitan Bank Limited commenced its commercial-banking operations as Metropolitan Bank in October 1992, later on, the Bank merged with Habib Bank AG Zurich's Pakistan in Oct'06. The merged entity was named as 'Habib Metropolitan Bank Limited', referred to as HMBL currently operates through an omnipresent branch network of 493 branches in 191 cities across Pakistan at end-Jun'22.

**Business Acumen** HMFSL enjoys close institutional relationship with Habib Metropolitan Bank Limited, owned and managed by Habib Family, have been involved in banking for over 75 years, is considered pioneers of introducing banking in Pakistan

**Financial Strength** The sponsors have sizeable net worth and may provide support to the Company with increasing quantum of operations. Habib Metropolitan Bank Limited enjoys a rating of AA+, assigned by PACRA. The equity of HMBL stood at ~PKR 70bln at end-Jun'22.

### Governance

**Board Structure** The Company has four directors on the board including the CEO and Chairman. There are 3 non-executive directors representing the HMBL and 1 executive director. Presence of independent insight would be an encouraging factor from the ratings perspective.

**Members' Profile** The board possess the necessary skills and experience required for capital markets. The board members, on-average, possess more than ~20 years of experience in the field of finance and capital markets.

**Board Effectiveness** During 1HCY22, two board meetings were conducted and attended by majority of the board members. The board is always provided with MIS pack prior to the meeting and the meeting discussions are properly documented in the form of minutes. However, board level committees have not been formed as per the industry best practice.

**Financial Transparency** The financial statements of the Company for the CY21 have been audited by KPMG Taseer Hadi and Company; 'A' category and a satisfactory QCR rated firm. The auditors have issued an unqualified opinion on the financial statements.

### Management

**Management Team** The management of HMFSL possess necessary experience and qualifications to manage the Company's operations efficiently. Mr. Ather Husain Medina has replaced Mr. Manzar Mushtaq as the CEO back in May'22. Mr. Ather Husain Medina is a qualified professional with extensive work experience of over 29 years in the financial sector and has worked with BIPL Securities Ltd., Alfalah GHP Investment Management Ltd., Invest Capital Investment Bank Ltd. and Atlas Asset Management Ltd., among other reputed Financial Institutions.

**Organizational Structure** The Company has a lean organizational structure to manage its operations and appropriate policies to protect the clients interest. The Company operates through the Head Office located in Karachi. All of the Departmental Heads reports to the CEO. However, the internal auditor reports directly to the Board.

**Client Servicing** HMFSL regularly publishes reports on market strategy, economy, daily news and market updates. HMFSL has provided direct links to relevant institutions and departments on their website. Moreover, various channels, including a mobile app and online trading platforms, are available to execute and monitor the transactions.

**Complaint Management** HMFSL has established Customer Complaint Policy to provide guidance to both customers and staff on the manner in which HMFSL receives and manages complaint. Customers can lodge complaint via call, email or by speaking directly to CFO/ Company Secretary or Head of Internal Audit.

**Extent Of Automation / Integration** HMFSL has comprehensive and effective IT arrangement to deal with dynamic technological environment prevailing in the capital markets arena. The Company has entered into an agreement with PSX to provide its customers with online trading facility via KITS.

**Continuity Of Operations** HMFSL has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The business continuity plan provides a framework for business departments if a major incident occurs, causing disruption to pre-defined critical services.

**Risk Management Framework** The Company has an in-house internal audit department, which monitors implementation of the policies and procedures of HMFSL. Presence of an Audit Committee would have been helpful for an effective control environment and compliance with reporting standards. The Company has developed detailed policies to manage the risk arising from staff trading, KYC/AML and a trade review policy is also in place.

**Regulatory Compliance** Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures. Research analyst policy has also been formulated. The Head of Compliance, Mr. Mushtaq Ahmed has over 20 years of experience in the financial industry.

### Business Sustainability

**Business Risk** Pakistan's economy has been volatile so far during FY23, with the sustained high inflation and political instability getting further compounded by the devastating floods that have ravaged both the North and South of the country. The revival of the IMF program and receiving the tranche of \$1.16bln is a positive indication; however, the pressure on the domestic economy remains high due to implementation of further taxes and levies to continue to adhere to the IMF conditions. Going forward, the market may adopt a 'wait and see' approach for some time before volumes surge again as activity rebounds once the post-flood rebuilding starts.

**Business Profile** HMFSL's primarily offers the services of Equity Brokerage to HNWIs and Corporate/Institutional clients. HMFSL also facilitates its clients by providing them access to quality research.

**Revenue And Profitability Analysis** The Company's operating revenue is mainly concentrated in equity brokerage. During 1HCY22 the Company earned equity brokerage revenue of ~PKR 19mln (SPY: ~PKR 28mln) which constituted ~59% of the total income. The Company has reported a net loss of ~PKR 2.6 mln during 1HCY22 compared to a profit of ~PKR 3.2mln in 1HCY21.

### Financial Sustainability

**Credit Risk** For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The exposure limits as a whole and on individual basis are monitored and any shortfalls are immediately reported to senior management for prompt action.

**Market Risk** HMFSL does not operate any proprietary book hence, it has protected itself from the risk arising from volatility in the equity markets. The Company does not plan to trade proprietary book in the near future.

**Liquidity Profile** The liquidity profile of HMFSL is considered strong as the Company has reported current assets of ~PKR 419mln at end-Jun'22 as compared to current liabilities of ~PKR 108mln.

**Financial Risk** At end-Jun'22, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 289mln. The Company has an equity base of ~PKR 330mln at end-Jun'22 as compared to the equity of ~PKR 338mln in CY'21.



PKR mln

**Habib Metropolitan Financial Services Limited**  
**Public Limited**

Jun-22	Dec-21	Dec-20	Dec-19
6M	12M	12M	12M

**A BALANCE SHEET**

1 Finances	0.00	0.00	0.00	0.00
2 Investments	114.82	120.55	122.16	118.45
3 Other Earning Assets	171.79	174.37	159.36	163.30
4 Non-Earning Assets	158.28	216.03	208.20	182.32
5 Non-Performing Finances-net	0.00	0.00	0.00	0.00
<b>Total Assets</b>	<b>444.89</b>	<b>510.94</b>	<b>489.71</b>	<b>464.06</b>
6 Funding	6.25	7.33	4.15	5.60
7 Other Liabilities (Non-Interest Bearing)	108.54	165.15	149.76	135.90
<b>Total Liabilities</b>	<b>114.79</b>	<b>172.48</b>	<b>153.91</b>	<b>141.50</b>
<b>Equity</b>	<b>330.22</b>	<b>338.47</b>	<b>335.82</b>	<b>322.55</b>

**B INCOME STATEMENT**

1 Fee Based Income	18.87	49.14	50.92	29.93
2 Operating Expenses	(31.41)	(56.41)	(56.42)	(54.34)
3 Non Fee Based Income	12.86	16.45	20.31	26.03
<b>Total Operating Income/(Loss)</b>	<b>0.33</b>	<b>9.18</b>	<b>14.81</b>	<b>1.62</b>
4 Financial Charges	(0.40)	(1.01)	(0.82)	(1.43)
<b>Pre-Tax Profit</b>	<b>(0.07)</b>	<b>8.16</b>	<b>13.99</b>	<b>0.20</b>
5 Taxes	(2.53)	(3.82)	(4.49)	3.76
<b>Profit After Tax</b>	<b>(2.60)</b>	<b>4.35</b>	<b>9.50</b>	<b>3.96</b>

**C RATIO ANALYSIS**

**1 Cost Structure**

Financial Charges / Total Operating Income/(Loss)	123%	11%	6%	88%
Return on Equity (ROE)	-2%	2%	4%	2%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	74%	66%	69%	70%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	-13.53	-0.26	4.38	-10.24

**3 Liquidity**

Liquid Assets / Total Assets (D+E+F)	35%	33%	37%	35%
Liquid Assets / Trade Related Liabilities	162%	107%	182%	128%

**4 Credit & Market Risk**

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	41%	29%	59%	33%
Equity Instruments / Investments	14%	18%	19%	17%

**Broker Management Rating**

An independent opinion on the quality of management and services provided by a broker

Scale	Definition
<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.</p>	<p><b>Rating Watch</b> 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.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**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.

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### **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 | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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