



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
25-Oct-2024	BMR2	-	Stable	Maintain	-
27-Oct-2023	BMR2	-	Stable	Maintain	-
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 limited company primarily providing equity brokerage services to individuals and leading financial institutions. Since Oct’23, the KSE-100 Index has experienced a surge in investor interest, with the index breaching historic high levels continuously and breaching the 86k mark for the first time during Oct’24. The market P/E ratio is still considerably low, and the index is expected to grow further. Of particular note is the country’s policy rate decision, and the expected rate cuts during FY25 shall give rise to fresh buying as investors shift the focus from fixed income to the equity market. While FY24 has had good results for the brokerage industry, political and economic stability are key factors to uphold investor interest during FY25. The rating incorporates the business acumen of the primary sponsors, Habib Metropolitan Bank Limited, the experienced management team, and the availability of a client services platform with research reports available to customers. The governance framework is considered satisfactory; however, the inclusion of independent directors with relevant experience would strengthen corporate governance. The organizational structure is lean and commensurate with the scale of operations. The Company operates through its office located in Karachi. HMFSL has an in-house internal audit department, which strengthens the Company's control framework. The Company has established rigorous protocols regarding risk assessment by implementing KYC, CDD, AML, CFT, and whistleblowing policies. The market risk is limited, as HMFSL does not maintain any proprietary trading books. The brokerage revenue of HMFSL increased by 122% to ~PKR 26mln during 1HCY24 compared with ~PKR 12mln during 1HCY23. While the surge in revenue is attributable to market uptick, inflation increased the cost of doing business, eroding profitability margins. The Company reported a net loss of PKR ~14mln in 1HCY24 compared to a net loss of ~PKR 15mln in SPLY. There has been a substantial increase of ~24% in administrative expenses. The Company has an adequate equity base of ~PKR 298mln at the end of Jun’24 as compared to the equity of ~PKR 308mln in Dec’23.

Going forward, the ratings are dependent on the management's ability to increase and retain its market share and diversification in revenue base to improve its competitive position in the brokerage industry. Simultaneously, it is imperative to uphold robust internal controls, retention of key management personnel, and diligently monitor risks.

Disclosure

Name of Rated Entity	Habib Metropolitan Financial Services Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Assessment Framework Broker Management Rating(Nov-23)
Related Research	Sector Study Brokerage & Securities(Jan-24)
Rating Analysts	Hassan Ahmad Hassan.Ahmad@pacra.com +92-42-35869504



Ownership

Ownership Structure Habib Metropolitan Financial Services Limited ('HMFSL' or the 'Company') is a subsidiary of Habib Metropolitan Bank Limited. HMFSL was incorporated in 2007 as a public limited company under the Companies Ordinance, 1984 and commenced its operations in 2008. HMFSL is a wholly owned subsidiary of Habib Metropolitan Bank Limited (HMBL) and the ultimate holding vests with Habib Bank AG Zurich, which is based in Switzerland.

Stability Habib Metropolitan Bank Limited, formed from the merger of Metropolitan Bank and Habib Bank AG Zurich Pakistan in October 2006, has a strong ownership structure that enhances its stability. This partnership builds stakeholder confidence and supports growth. The Bank operates 521 branches across 207 cities in Pakistan in Jun'24. The Group focuses on succession planning by identifying future leaders, providing development programs, and promoting diversity to ensure smooth leadership transitions and maintain its competitive edge.

Business Acumen HMFSL has a strong institutional relationship with Habib Metropolitan Bank Limited, which is owned and managed by the Habib family. The Habib family has been a leader in the banking sector in Pakistan for over 75 years, recognized for their significant contributions to the establishment and development of banking in the country.

Financial Strength The sponsors possess substantial net worth, enabling them to provide increasing support to the Company as operations expand. Habib Metropolitan Bank Limited enjoys a strong AA+ rating assigned by PACRA, reflecting its robust financial stability and performance. This solid foundation allows HMBL to effectively leverage its resources for strategic investments and to navigate market challenges successfully.

Governance

Board Structure The Company has three directors on its board, all of whom are non-executive and represent HMBL. Although the board lacks an independent director, the presence of senior management of HMBL provides valuable oversight. The collective experience of the directors offers a level of comfort; however, the inclusion of independent insight would further enhance the board's structure and could positively influence ratings.

Members' Profile The board possesses the necessary skills and experience for capital markets, with members averaging over 20 years in finance, capital markets, and strategic decision-making, ensuring informed and effective governance. The board includes Syed Hasnain Haider Rizvi (Chief Compliance Officer at HMBL), Ather Ali Khan (Company Secretary at HMBL), and Syed Ather Ahmed (Group Executive South & Financial Institutions at HMBL). Mr. Syed Ather Ahmed is the Chairman of the Board.

Board Effectiveness During 1HCY24, three 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, due to the size of the board, board-level committees have not been formed as per the industry best practice.

Financial Transparency The financial statements of the Company for the CY23 has been audited by KPMG Taseer Hadi and Company which is classified in the 'A' category as per the SBP's approved auditor's list, and has a satisfactory QCR rating. The auditors have issued an unqualified opinion on the financial statements.

Management

Management Team The management team of HMFSL possesses the necessary experience and qualifications to efficiently oversee the Company's operations. Mr. Ather Hussain Madina, the CEO, is a highly qualified professional with over 29 years of extensive experience in the financial sector, having worked with prominent organizations in the region. Mr. Mohammad Ali Jamal, currently serving as CFO of HMFSL, is an ACCA-qualified professional with significant experience at notable firms in the financial sector.

Organizational Structure The Company maintains a lean organizational structure to effectively manage its operations, implementing appropriate policies to safeguard client interests. The Company operates from its office in Karachi, where all Department Heads report directly to the CEO, while the internal auditor reports directly to the Board.

Client Servicing HMFSL regularly publishes reports on market strategy, the economy, daily news, and market updates, and provides direct links to relevant institutions and departments on their website. Additionally, various channels, including a mobile app and online trading platforms, are available for executing and monitoring transactions. Traders are assigned to each client to enhance their personal experience and provide tailored support throughout the trading process.

Complaint Management HMFSL has established Customer Complaint Policy to provide guidance to both customers and staff on the manner through which HMFSL receives and manages complaints. Customers can lodge complaints via call, email or by speaking directly to the Head of Operations.

Extent Of Automation / Integration HMFSL has comprehensive and effective IT arrangements to deal with dynamic technological environment prevailing in the capital markets arena. The Company operates its own online trading platform - HMFSL Insta Trade.

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 a more 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 The Compliance Department ensures regular monitoring of controls and systems to guarantee that all functions align with applicable policies and procedures. Mr. Mateen Moosani, who previously led the department, has over 25 years of experience in the financial industry. Recently, Mr. Mateen has resigned, and the Company is in the process of hiring a new Head of Compliance.

Business Sustainability

Business Risk Since Oct'23, the KSE-100 Index has experienced a surge in investor interest, with the index breaching historic high levels continuously and breaching the 86k mark for the first-time during Oct'24. The market P/E ratio is still considerably low and the index is expected to grow further. Of particular note is the decision of the country's policy rate, and the expected rate cuts during FY25 shall give rise to fresh buying as investors shift the focus from fixed-income to the equity market. While FY24 has had good results for the brokerage industry, political and economic stability are key factors to uphold investor interest during FY25.

Business Profile The Company's service offering includes Equity Brokerage and Economic and Investment Research. The equity brokerage mainly comprises of services including dealing in securities on Ready and Future counters. The clientele of HMFSL is segmented into two categories i) Individuals/Retail ii) Leading Financial Institutions.

Revenue And Profitability Analysis The Company has earned brokerage revenue of ~PKR 26mln in 1HCY24 (SPLY: ~PKR 12mln). The Company reported a net loss of PKR ~14mln in 1HCY24 compared to a net loss of ~PKR 15mln in SPLY. There has been a substantial increase of ~24% in administrative expenses. The surge in topline is a positive indicator for HMFSL; however, profitability margins were eroded due to the higher cost of doing business during 1HCY24.

Financial Sustainability

Credit Risk For the assessment of client's creditworthiness, 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 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 partake in proprietary trading in the near future.

Liquidity Profile The liquidity profile of HMFSL is adequate. The Company has reported current assets of ~PKR 395mln in 1HCY24 as compared to current liabilities of ~PKR 136mln.

Financial Risk At end-Jun'24, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 179mln. The Company has an equity base of ~PKR 298mln at end Jun'24 as compared to the equity of ~PKR 308mln in Dec'23. Equity base is considered adequate to resist market shocks.



PKR mln

Habib Metropolitan Financial Services Limited
Public Unlisted Company

Jun-24	Dec-23	Dec-22	Dec-21
6M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	117	112	112	121
3 Other Earning Assets	116	80	159	174
4 Non-Earning Assets	204	314	217	216
5 Non-Performing Finances-net	-	-	-	-
Total Assets	437	506	487	512
6 Funding	2	3	5	7
7 Other Liabilities (Non-Interest Bearing)	137	194	156	165
Total Liabilities	139	197	162	172
Equity	298	308	326	338

B INCOME STATEMENT

1 Fee Based Income	26	34	32	49
2 Operating Expenses	(60)	(97)	(64)	(56)
3 Non Fee Based Income	22	47	32	16
Total Operating Income/(Loss)	(13)	(16)	0	9
4 Financial Charges	(0)	(1)	(1)	(1)
Pre-Tax Profit	(13)	(17)	(0)	7
5 Taxes	(2)	(3)	(3)	(4)
Profit After Tax	(15)	(20)	(4)	4

C RATIO ANALYSIS

1 Cost Structure				
Financial Charges / Total Operating Income(Loss)	-2.0%	-4.6%	174.8%	11.9%
Return on Equity (ROE)	-16.5%	-15.8%	-2.3%	1.4%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	68.2%	60.9%	66.8%	66.2%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	-9570.6%	-5680.1%	-1783.2%	-92.5%
3 Liquidity				
Liquid Assets / Total Assets (D+E+F)	56.3%	69.7%	52.9%	52.5%
Liquid Assets / Trade Related Liabilities	210.5%	267.6%	275.0%	172.1%
4 Credit & Market Risk				
Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	55.0%	77.3%	112.3%	29.5%
Equity Instruments / Investments	17.5%	21.2%	0.0%	0.0%

Broker Management Rating

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

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

<p>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’.</p>	<p>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.</p>	<p>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.</p>	<p>Withdrawn 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>Harmonization 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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(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

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- (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)

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- (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)

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