The Pakistan Credit Rating Agency Limited

Rating Report

Habib Metropolitan Bank Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2022	AA+	A1+	Stable	Maintain	-
25-Jun-2021	AA+	A1+	Stable	Maintain	-
26-Jun-2020	AA+	A1+	Stable	Maintain	-
27-Dec-2019	AA+	A1+	Stable	Maintain	-
27-Jun-2019	AA+	A1+	Stable	Maintain	-
27-Dec-2018	AA+	A1+	Stable	Maintain	-
28-Jun-2018	AA+	A1+	Stable	Maintain	-
30-Dec-2017	AA+	A1+	Stable	Maintain	-
23-Jun-2017	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Habib Metropolitan Bank is differentiated on the basis of its superb ability to serve trade-related needs of its customers, and therefore enjoys a leading position in the industry. The ratings of Habib Metropolitan Bank (HabibMetro) are vested in the brand strength of the Bank, flanked by a family of astute bankers. The Bank is also associated with a diversified and financially strong international bank - Habib Bank AG Zurich (HBZ). This association helps in assimilating the parent's best practices into HabibMetro, while fostering control environment with enhanced level of oversight. Additionally, it is a part of House of Habib, which has a strong array of business in Pakistan mainly large industrial and corporate units. The benefits continue to accrue in terms of non-markup income. The Bank has a strong forte in the business hub of Pakistan in terms of its presence and contribution of deposits and advances. The Bank grew its customer deposit base by 10.6%, wherein it enhanced its current account deposits by 21.5%. The Bank continues to remain focused on improving its deposit mix. The Bank’s emphasis in terms of its loan portfolio is evident by the growth of 28.9% in performing advances, led by its presence in textile. Overall infection ratio improved to 4.0% (CY20: 5.8%) owing to decline in absolute NPLs. Due to the low monetary policy rate for major period of CY21, as well as improved current account deposits, HMBL’s cost of funds declined, resulting in a reduced markup expensed. This resulted in inched up net mark up income of the bank. This progress, along with growth in non-markup income, resulted in the growth in profitability. As at December 31, 2021 the Bank’s CAR declined to 14.10% (CY20: 16.79%). Pakistan’s economy has gone through several varied phases in last two years due to the COVID19 pandemic. Banking sector continued to flourish with high profitability. Going forward, the macro-economic environment is beset with myriad challenges due to heightened interest rate, tightening of demand, rupee depreciation and higher infection. This has repercussions for the entire system including banking.

The ratings are dependent on the management's ability to augment its position generally in the banking industry and particularly in its market niche - trade finance in the wake of rising competition. Any weakening in asset quality will in turn put pressure on the bank's profitability and risk absorption capacity.

Disclosure

Name of Rated Entity	Habib Metropolitan Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Financial Institution Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Commercial Bank(Jun-22)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Habib Metropolitan Bank Limited (hereinafter referred as "HMBL" or "the Bank") was incorporated as a public limited company, in 1992, and is listed on Pakistan Stock Exchange (PSX).

Background The Bank commenced its commercial-banking operations as Metropolitan Bank in October 1992; under this name, it remained a highly rated bank till October 2006, when the Bank merged with Habib Bank AG Zurich's Pakistan operations.

Operations Bank provides comprehensive banking services and products. These include specialized trade finance products, besides an array of products and technologically advanced services like mobile banking, globally accepted visa card and nationwide ATM network. The Bank serves wide range of corporate, retail, small business, agricultural, Islamic and asset financing customers.

Ownership

Ownership Structure HMBL is majorly owned by Habib Bank AG Zurich (HBZ) (51%), rest is owned by Corporates & FIs (30%) and Individuals (19%).

Stability HMBL ownership structure has remained unchanged for many years and there is no expectation of any material change in the foreseeable future.

Business Acumen HMBL enjoys close institutional relationship with Habib Group (HG) entities. Habib family, having been involved in banking for over 75 years, is considered pioneers of introducing banking in Pakistan.

Financial Strength Habib Bank AG Zurich (HBZ), having a network of 494 branches spanning eight countries over four continents, is owned and managed by Habib Family. HBZ has three wholly owned subsidiary banks: Habib Bank Zurich Plc (UK); Habib Canadian Bank; HBZ Bank Limited (S Africa). Habib Bank Zurich (Hong Kong) Ltd and Habib Metropolitan Bank Limited (Pakistan) are also subsidiaries of HBZ.

Governance

Board Structure HMBL's nine-member Board of Directors (BoD), comprises of CEO along with three independent directors. There are five non-executive directors including three representatives of HBZ.

Members' Profile Chairman of the board, Mr. Mohamedali R. Habib is a well-known and seasoned banker with over 35 years' experience. He was appointed as Joint-President & Division Head (Asia) & Member of General Management of HBZ in 2011 and was elevated to Group CEO in 2016.

Board Effectiveness The board actively participates in strategy formulation and effectively monitors the managerial affairs of the bank.

Financial Transparency External auditors of the company, KPMG Taseer Hadi & Co., Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY21. Further, an Internal Audit Division is in place that performs continuous reviews to improve quality of HMBL's internal control environment.

Management

Organizational Structure HMBL's organizational structure and lines of authority are well-defined, with proper monitoring and compliance mechanism, and processes throughout the bank are largely governed by approved policies and procedures. The bank, with a largely horizontal organizational structure, has fifteen groups & divisions reporting to the CEO, except Internal Audit Division that reports to the Board's Audit Committee.

Management Team Mr. Mohsin Ali Nathani, CEO, is a seasoned corporate banker with over 30 years of banking experience, covering Asia (East and South-East), Middle East and Levant regions.

Effectiveness The management committees at HMBL comprise Central Management Committee (CMC), Central Credit Committee (CCC), Asset-Liability Committee (ALCO), Management Compliance Committee, COSO Steering Committee, Operational Risk and Compliance Committee, Business Budget Review Working Group (BBRWG) and IT Steering Committee. The committees facilitate smooth and efficient operations of the bank through vertical and horizontal co-ordination at various levels.

MIS HabibMetro continues to upgrade its core banking software, hPLUS. It offers many features including Intelligent Option Navigation, Event Monitoring, Real-Time Client Limit Monitoring, and Customer Credit Worthiness Analysis.

Risk Management Framework Prudent risk management aspects are embedded in the bank's strategy, organizational structure, processes, and systems and controls. The bank has adopted a cohesive management structure for credit, operations, liquidity and market risk.

Business Risk

Industry Dynamics Pakistan's economy has gone through several varied phases in last two years. It was deeply impacted by the magnitude of the COVID19 pandemic. The economic activity revived afterwards and Pakistan posted a GDP growth rate of ~4.0% in FY21 after a contraction in economy of -0.4% in FY20. Banking sector continues to flourish with high profitability. Banking sector weightage is approximately ~25% of the KSE 100 index. Total banking assets posted growth of ~19% YoY whilst investments surged by 21% YoY to PKR ~14.4trln (end-Dec20: PKR ~11.9trln). Gross Advances of the sector recorded growth (23%) to stand at PKR ~10.9trln (end-Dec20: PKR ~8.8trln). Non-performing loans witnessed slight uptick of 4% to PKR ~860bln. Capital Adequacy Ratio stood at 16.7% (regulatory requirement of 11.5%).

Relative Position During CY21, Bank's customer deposits (PKR 738bln) increased by 10.6%, lower than sector's growth of 17.5% against deposits in CY20 of PKR 667bln. HMBL retained its position in medium banks with share in total customer deposits of the sector at 3.7% (CY20: 4.0%).

Revenues Bank reported markup of PKR 73bln for CY21 with slight decline of 4% as compared to CY20 (PKR 76bln). Of this increase, Markup on investments constitute a major chunk (decreasing by 2%) to PKR 53bln (CY20: PKR 54bln). Net markup income of the bank grew by 2.4% to PKR 29.5bln as compared to last year (CY20: PKR 28.8bln) on the back of decreased markup expense of PKR 44bln (CY20: PKR 47bln). During 1QCY22, the Bank earned gross markup income of PKR 23.4bln i.e., showing an increase of 35% from corresponding period in last year (1QCY21: PKR 17.3bln).

Performance Non-markup expenses for the year increased by 15% YoY – an impact of inflation, branch expansion, compensation and property expense, which now stands at PKR 17.1bln (CY20: PKR 14.9bln). The Bank's profit before taxation for the year stands at PKR 21.5bln as against PKR 20.0bln last year, showing improvement of 8%. Profit after tax was reported at PKR 13.5bln as against PKR 12.0bln last year; up 12% YoY. For 1QCY22, the Bank reported profit after tax of PKR 3.6bln i.e., 11% higher than the corresponding period of the last year (1QCY21: 3.2bln).

Sustainability Going forward, HMBL remains committed to protecting its shareholders' interest, while maximizing the value and service offered to its customers through a varied spectrum of financial products architected upon an advanced technological platform. The Bank aims to target growth, by adding new clients, mobilizing low-cost deposits, improving asset quality and enhancing cost efficiency.

Financial Risk

Credit Risk Net advances of the Bank constitute 33% of the total assets at end-Dec20 – increasing 29% from last year (CY21: PKR 419bln, CY20: PKR 326bln). Out of total performing advances, only 9% are lent to government sector while remaining 91% are with private sector. During 1QCY22, the advances increased by 7% to report at PKR 433bln. Non-performing loans of the Bank witnessed a decrease of PKR 2.4bln and was reported at PKR 16.9bln. Infection ratio has improved to 4.0% as compared to 5.8% in CY20.

Market Risk The investment portfolio showed significant growth of 14% to PKR 652bln during CY21 (CY20: PKR 571bln). The bank's investment portfolio constitutes 53% of total asset base and government securities continue to dominate the overall investment book (99.6%). However, the investment portfolio remained on the same lines during 1QCY22 to report at PKR 649bln as at end Mar'22.

Liquidity And Funding Total Deposits were reported at PKR 772bln as against PKR 681bln last year – mainly led by growth in current accounts by 21%. At the year end, Advances to deposits ratio (ADR) stands at 52%. However, ADR rationalize to 55% as at end-Mar22.

Capitalization Bank's CAR as at end-Dec21 is 14.1% (CY20: 16.8%), which is above the regulatory requirement of 11.50%. Equity base of the bank has been displaying growth trajectory over last few years; augmented to PKR 63bln as at end-Dec21 (end-Dec20: PKR 58bln).

PKR mln

Habib Metropolitan Bank Limited	Mar-22	Dec-21	Dec-20	Dec-19
Listed Public Limited	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	449,188	418,541	325,951	277,545
2 Investments	648,568	651,946	570,761	434,696
3 Other Earning Assets	45,948	19,529	16,488	44,519
4 Non-Earning Assets	145,287	138,510	104,386	102,393
5 Non-Performing Finances-net	(4,706)	(4,109)	(14)	617
Total Assets	1,284,284	1,224,417	1,017,572	859,771
6 Deposits	773,709	772,286	680,956	611,869
7 Borrowings	349,978	316,167	201,723	144,462
8 Other Liabilities (Non-Interest Bearing)	97,724	72,989	77,245	59,202
Total Liabilities	1,221,410	1,161,442	959,924	815,533
Equity	62,873	62,975	57,648	44,238
B INCOME STATEMENT				
1 Mark Up Earned	23,381	73,396	76,123	72,206
2 Mark Up Expensed	(15,645)	(43,899)	(47,361)	(54,815)
3 Non Mark Up Income	3,346	11,140	9,650	7,347
Total Income	11,082	40,637	38,413	24,738
4 Non-Mark Up Expenses	(4,799)	(17,087)	(14,875)	(13,094)
5 Provisions/Write offs/Reversals	(387)	(2,009)	(3,502)	(406)
Pre-Tax Profit	5,895	21,541	20,037	11,238
6 Taxes	(2,311)	(8,082)	(8,029)	(4,654)
Profit After Tax	3,584	13,459	12,008	6,583
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	2.5%	2.6%	3.1%	2.3%
Non-Mark Up Expenses / Total Income	43.3%	42.0%	38.7%	52.9%
ROE	22.8%	22.3%	23.6%	16.2%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	4.9%	5.1%	5.7%	5.1%
Capital Adequacy Ratio	12.8%	14.1%	16.8%	14.6%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	57.5%	61.2%	67.6%	62.6%
(Advances + Net Non-Performing Advances) / Deposits	55.4%	51.6%	45.8%	43.1%
CA Deposits / Deposits	38.1%	34.7%	32.4%	28.7%
SA Deposits / Deposits	27.7%	28.6%	27.9%	32.9%
4 Credit Risk				
Non-Performing Advances / Gross Advances	3.7%	4.0%	5.8%	6.2%
Non-Performing Finances-net / Equity	-7.5%	-6.5%	0.0%	1.4%

Credit Rating

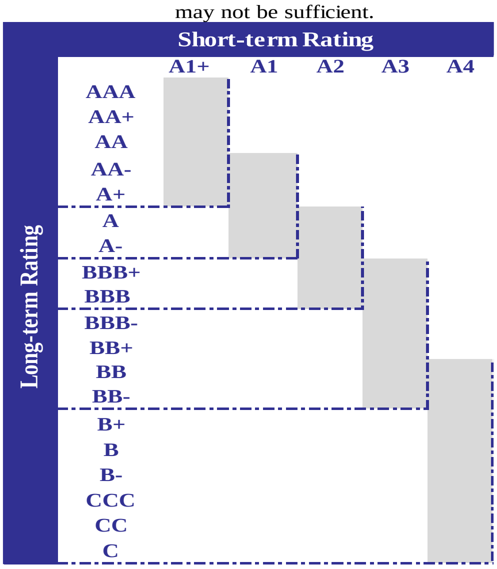
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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+ AA 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+ A 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+ BBB 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+ BB 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+ B 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 CC 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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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 | 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)
Proprietary Information