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
24-Jun-2024	AA+	A1+	Stable	Maintain	-
23-Jun-2023	AA+	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Habib Metropolitan Bank (HMB) along with its formidable position in meeting trade-related needs and being a frontrunner in the industry, offers a full range of Corporate, Commercial, and Retail products and has a strong customer base across these segments. HMB SIRAT is also a key area of focus for HMB, as the share of Islamic branches has grown to 40% during CY24. Its strong brand, skilled bankers, and strategic partnership with Habib Bank AG Zurich (HBZ) contribute to its success. HBZ is a global financial institution, a strong and well-capitalized bank, with over 550 branches across eight countries. Owned and managed by the Habib Family, HMB is ranked amongst the financially strongest banks in Pakistan owing to backing from HBZ, reflected by one of the strongest CAR in the industry. Along with regular dividend payout over the years, the CAR remained well above the regulatory threshold with no inclusion of subordinated debt. At end-Dec23, the CAR improved to 18.3% (end-Dec22: 14.6%), with one of the strongest compositions of Tier I CAR in the industry. The hallmark of HMB is its envious presence in the trade business, a sustainable and diversified source of revenue. The long association of personnel with HMB solidifies the management quality. During CY23, the Bank experienced substantial growth in digital banking usage attributable to the bank's strategic efforts to enhance digital offerings. At end-Dec23, the deposit base of the bank increased by 15% to stand at PKR 1,012bln (end-Dec22: PKR 881bln) with an equal proportion of CA and SA. The growth in the CA has been consistent over the years. The gross performing advances were recorded at PKR 418.8bln (end-Dec22: PKR 433.7bln) with the infection ratio declining to 4.5% (end-Dec22: 4.8%). Over the years, the bank has maintained an intact market position. The bank is maintaining a shorter duration in the investment book, which will allow it to reinvest maturing securities into higher-yielding securities. During CY23, the PAT strengthened by 71% to stand at PKR 24.4bln (CY22: PKR 14.3bln). CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. The Central Bank maintained a tight monetary policy stance. Despite these, CY23 was successful for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

The ratings are contingent upon the management’s ability to strengthen the bank’s position in the banking industry as a whole and specifically in its market niche of trade finance, amidst rising competition. Any deterioration in asset quality would consequently impact the bank’s profitability and its capacity to absorb risks. Going forward, the development of competitive market share will remain important for a positive transition in the ratings of the bank.

Disclosure

Name of Rated Entity	Habib Metropolitan Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Financial Institution Rating(Oct-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Commercial Banks(Jun-24)
Rating Analysts	Muhammad Usman Ameer | usman.ameer@pacra.com | +92-42-35869504

Profile

Structure Habib Metropolitan Bank Limited (hereinafter referred to as "HMB" or "the Bank") was incorporated as a public limited company, in 1992, and is listed on the 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 The 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 cards, and a nationwide ATM network. The Bank serves a wide range of corporate, retail, small business, agricultural, Islamic, and asset-financing customers. The Bank has a branch network of 525 (2022:500) branches, including 117 (2022: 61) Islamic banking branches, an offshore branch (Karachi Export Processing Zone branch), and 1 (2022:1) sub-branch in Pakistan.

Ownership

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

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

Business Acumen HMB enjoys a close institutional relationship with Habib Group (HG) entities. Habib family, having been involved in banking for over 80 years, is considered the pioneer in introducing banking in Pakistan.

Financial Strength Habib Bank AG Zurich (HBZ) is a global financial institution with over 550 branches across eight countries on four continents. Owned and managed by the Habib Family, HBZ has three wholly-owned subsidiary banks: Habib Bank Zurich Plc (UK), Habib Canadian Bank, and HBZ Bank Limited (South Africa). HBZ also has subsidiaries in Hong Kong (Habib Bank Zurich (Hong Kong) Ltd) and Pakistan (HMB Pakistan).

Governance

Board Structure HMB's Board of Directors (BoD) consists of nine members, including the CEO and three independent directors. Among the members, there are five non-executive directors, with four of them representing HBZ.

Members' Profile The chairman of the board, Mr. Mohamedali R. Habib is a well-known and seasoned banker with over 37 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. He is accompanied by well-known and seasoned professionals.

Board Effectiveness The board actively participates in strategy formulation and effectively monitors the managerial affairs of the bank. There are five board committees in place to assist the board in the effective oversight of the Bank's overall operations on relevant matters.

Financial Transparency KPMG Taseer Hadi & Co., Chartered Accountants, serves as the external auditors for the company and has provided an unqualified audit report on the annual financial statements for the year CY23. In addition, HMB has an Internal Audit Division in place that conducts ongoing reviews to enhance the quality of the bank's internal control environment.

Management

Organizational Structure HMB's organizational structure and lines of authority are well-defined, with proper monitoring and compliance mechanisms, 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 the Internal Audit Division which reports to the Board's Audit Committee.

Management Team During CY23, Mr. Khurram Shahzad Khan appointed as the President & CEO of the bank after Mr. Mohsin Ali Nathani. Mr. Khurram is a seasoned banker with over 38 years of experience spanning risk and credit management, corporate, investment, and transaction banking in local and multinational financial institutions.

Effectiveness HMB has various management committees including CMC, CCC, ALCO, Management Compliance Committee, ORCC, and IT Steering Committee. These committees ensure smooth operations, coordinate at different levels, and maintain segregation of duties. An internal control framework is in place, regularly tested to address top risks and ensure effective oversight.

MIS HMB continues to upgrade its core banking software, H-PLUS. 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 CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan's banking sector's total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 18.5% (end-Dec22: 15.5%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

Relative Position At end-Dec23, the Bank's deposit base increased by 15% to stand at PKR 1,012bln (end-Dec22: PKR 881bln). HMB largely retained its position in medium banks with a share in total deposits of the sector at 3.6% (end-Dec22: 3.9%).

Revenues During CY23, the NIMR of the bank increased by 76% to stand at PKR 71.4bln (CY22: PKR 40.6bln) attributable to enhanced markup income clocking at PKR 205.6bln (CY22: PKR 133.2bln). The asset yield increased to 15.8% (CY22: 11.4%). The cost of funds inclined to 10.5% (CY22: 8%). Consequently, the spread improved to 5.3% (CY22: 3.4%).

Performance During CY23, the non-markup income of the Bank increased by 16% to stand at PKR 15.3bln (CY22: PKR 13.2bln) with major contributions coming in from fee and commission income being PKR 9.4bln (CY22: PKR 7.9bln) followed by forex income clocking in at PKR 5.2bln (CY22: PKR 5.1bln). The provision charges reported at PKR 4.7bln (CY22: PKR 3.5bln). The profit after tax strengthened by 71% to stand at PKR 24.4bln (CY22: PKR 14.3bln).

Sustainability HMB's unwavering focus on shareholder protection and customer-centric value is fortified by technologically advanced financial products. The Bank aims to target organic growth, add new clients, mobilize low-cost deposits, improve asset quality, and enhance cost efficiency.

Financial Risk

Credit Risk At end-Dec23, the gross performing advances of the Bank were reported at PKR 418.8bln (end-Dec22: PKR 433.7bln). Non-performing advances of the Bank declined to PKR 19.8bln (end-Dec22: PKR 21.6bln). Consequently, the infection ratio improved to 4.5% (end-Dec22: 4.8%). On the other hand, the ADR of the bank reported at 40.7% (end-Dec22: 49.2%).

Market Risk At end-Dec23, the investment portfolio of the bank has increased by 28% to stand at PKR 925.4bln (end-Dec22: PKR 723.6bln). Government securities constitute 97% of total investments (end-Dec22: 97%).

Liquidity And Funding At end-Dec23, customer deposits increased to stand at PKR 996.8bln (end-Dec22: PKR 853.4bln). CA and SA proportion rationalized to 36.9% (end-Dec22: 34.8%) and 36.6% (end-Dec22: 29.1%) respectively. The bank's liquidity, in terms of Liquid Assets-to-Deposits and borrowing ratio, inclined to 72.6% (end-Dec22: 57.1%).

Capitalization HMB is a well-capitalized institution with an equity base and CAR well above the regulatory requirements. At end-Dec23, the Bank's equity base increased to PKR 93.3bln (end-Dec22: PKR 74.5bln). Subsequently, the CAR of the bank inclined to 18.3% (end-Dec22: 14.6%), comprising Tier I CAR (16.63%).

PKR mln

Habib Metropolitan Bank Limited Listed Public Limited	Dec-23 12M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Total Finances - net	435,189	449,492	418,541	325,951
2 Investments	909,036	707,809	651,946	570,761
3 Other Earning Assets	23,303	82,529	19,529	16,488
4 Non-Earning Assets	195,653	157,833	138,510	104,386
5 Non-Performing Finances-net	(6,764)	(219)	(4,109)	(14)
Total Assets	1,556,417	1,397,444	1,224,417	1,017,572
6 Deposits	1,012,303	880,697	772,286	680,956
7 Borrowings	323,270	343,968	316,167	201,723
8 Other Liabilities (Non-Interest Bearing)	127,569	98,272	72,989	77,245
Total Liabilities	1,463,142	1,322,937	1,161,442	959,924
Equity	93,275	74,507	62,975	57,648
B INCOME STATEMENT				
1 Mark Up Earned	205,612	133,165	73,396	76,123
2 Mark Up Expensed	(134,195)	(92,554)	(43,899)	(47,361)
3 Non Mark Up Income	15,295	13,215	11,140	9,650
Total Income	86,712	53,826	40,637	38,413
4 Non-Mark Up Expenses	(29,978)	(22,677)	(17,087)	(14,875)
5 Provisions/Write offs/Reversals	(4,739)	(3,531)	(2,009)	(3,502)
Pre-Tax Profit	51,995	27,617	21,541	20,037
6 Taxes	(27,611)	(13,357)	(8,082)	(8,029)
Profit After Tax	24,384	14,261	13,459	12,008
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	4.8%	3.1%	2.6%	3.1%
Non-Mark Up Expenses / Total Income	34.6%	42.1%	42.0%	38.7%
ROE	29.1%	20.7%	22.3%	23.6%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	6.0%	5.3%	5.1%	5.7%
Capital Adequacy Ratio	18.3%	14.6%	14.1%	16.8%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	72.6%	57.1%	61.2%	67.6%
(Advances + Net Non-Performing Advances) / Deposits	40.7%	49.2%	51.6%	45.8%
CA Deposits / Deposits	36.9%	34.8%	34.7%	32.4%
SA Deposits / Deposits	36.6%	29.1%	28.6%	27.9%
4 Credit Risk				
Non-Performing Advances / Gross Advances	4.5%	4.8%	4.0%	5.8%
Non-Performing Finances-net / Equity	-7.3%	-0.3%	-6.5%	0.0%

Credit Rating

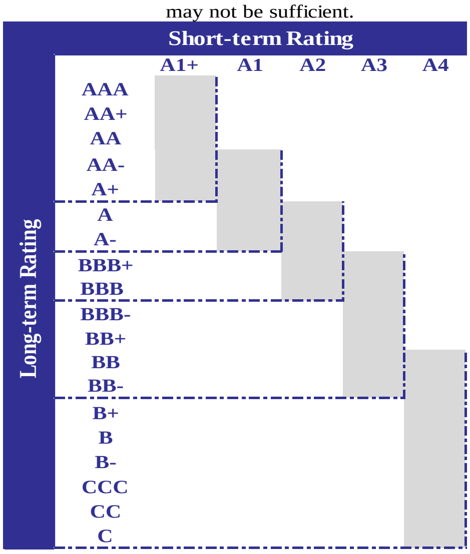
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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