



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Metropolitan Bank Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
23-Jun-2016	AA+	A1+	Stable	Maintain	-
25-Jun-2015	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings of Habib Metropolitan Bank (HabibMetro) is 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. The Bank has a strong forte in the business hub of Pakistan in terms of its presence and contribution of deposits and advances. To hold asset quality is crucial in the future. The Bank grew its customers deposit base by 8.3%, lower than the sector's growth, wherein it enhanced its current deposits by ~20%, higher than sector's growth thereby increasing its CASA mix (2019: 61.6%, 2018: 57.2%). The Bank will remain focused to improve its deposit mix. As at December 31, 2019 the Bank's CAR is 14.59%. The Tier 1 CAR increased from 12.75% in 2018 to 14.06% in 2019 while the overall CAR improved by 147 basis points. Covid-19 has posed challenges to the banking sector, as almost all segments of the economy, worldwide and domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed.

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	PACRA_Methodology_FI(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Commercial Bank(Jun-20)
Rating Analysts	Sohail Ahmed sohail.ahmed@pacra.com +92-42-35869504



Profile

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

Background Bank commenced its commercial-banking operations as Metropolitan Bank in October 1992; and in 2006 the Bank merged with Habib Bank AG Zurich's Pakistan operations. The merged entity was named Habib Metropolitan Bank Limited. The Bank continued to strengthen its outreach which makes the total branch network of 398 as at Mar-20.

Operations Bank provides comprehensive banking services and products. Bank has subsidiary companies, namely Habib Metropolitan Financial Service, Habib Metropolitan Modaraba Management, First Habib Modaraba and Habib Metro Modaraba.

Ownership

Ownership Structure HMBL is majority owned by Habib Bank AG Zurich (HBZ) (51%), rest is owned by FIs and Corporates (~22%), Individuals (~16%), Directors & Associates (~3%) and rest is owned by others.

Stability HMBL performs succession planning session periodically and identify successors for all critical roles. In this way it provides continuity to leadership and avoids extended and costly vacancies for key position.

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. Extensive experience and strong acumen of sponsors has added value to HMBL.

Financial Strength Habib Bank AG Zurich (HBZ), having a network of 432 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 HabibMetro Pakistan are also subsidiaries of HBZ. The Group has a strong capital base (Dec19: CHF 1.196 bln) and asset base (Dec19: CHF 11.16 bln).

Governance

Board Structure HMBL's nine-member Board of Directors (BoD) is effective and balanced – comprising CEO along with three independent directors and five non-executive directors including two representatives of HBZ.

Members' Profile Chairman of the board, Mr. Mohamedali R. Habib is a graduate in Business Management – Finance from Clark University, USA. He also holds a PGD in General Management from Stanford – NUS Singapore. Mr. Habib has worked in the corporate sector for over three decades, in various managerial capacities across different industries, including multinational projects. He is accompanied with well-known and seasoned professionals.

Board Effectiveness The board actively participates in strategy formulation and effectively monitors the managerial affairs of the bank. To ensure effective and independent oversight of the bank's overall operations, the Bank has constituted five committees.

Financial Transparency The external auditors of the company, KPMG Taseer Hadi & Co., Chartered Accountants, issued an unmodified audit conclusion pertaining to annual financial statements for CY19.

Management

Organizational Structure HMBL's organizational structure and lines of authority are well-defined. The bank, with a largely horizontal organizational structure, has seventeen groups & divisions reporting to the CEO, except Internal Audit which reports to the Board's Audit Committee and Shariah Board which reports to the Board of Directors.

Management Team Bank's senior management team comprises experienced bankers having national and international exposure. Mr. Mohsin Ali Nathani, CEO, is a seasoned corporate banker with over 29 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 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 As a result of general economic slowdown most indicators of the banking sector reflected mixed trend. Deposits of the banking sector stood at (CY19: PKR 15,953bln; CY18: PKR 14,254bln), showing a growth of ~12% as compared to 9.5% growth in CY18. Deployment of funds was largely skewed towards investments and particularly towards government instruments due to favorable interest rate dynamics (CY19: PKR 8,939bln; CY18: PKR 7,914bln). Meanwhile, advances witnessed a slowdown owing to subdued demand, cautious lending approach and monetary tightening. This was only a growth of 3.7% as compared to expansion of 22.2% in CY18. Asset quality saw deterioration – increased NPLs (CY19: PKR 761bln; CY18: PKR 680bln). The profitability of the banking sector improved due to an increase in Net Interest Income, which translated positively in other profitability indicators. The overall risk profile of the banking sector remained satisfactory.

Relative Position During CY19, Bank's customer deposits (PKR 558.5bln) increased by ~8.3%, lower than sector's growth, against deposits in CY19. HMBL retained its position in medium banks with share in total customer deposits of the sector at 4.0% (CY18: 4%).

Revenues On the gross markup income side, Bank reported markup of PKR 72bln for CY19 with growth of 70% as compared to last year. Of this increase, income on loans and advances constitute a major chunk increasing by 106% to PKR 27bln (CY18: PKR 13.13bln) followed by investments increasing by 45.5% to PKR 39.84bln (CY18: PKR 27.39bln). Non-markup income of the Bank increased by ~21% YoY, clocking in at PKR 7.35bln (CY18: PKR 6.07bln) with major contributions coming in from foreign exchange income and fee & commission income.

Performance Profit before tax of the Bank for CY19 increased by 11.55% as compared to that of last year and was reported at PKR 11.23bln (CY18: PKR 10.07bln). Provisioning expense saw an increase of 6.2% against last year (CY19: PKR 406mln, CY18: PKR 382mln).

Sustainability Going forward, the Bank aims to target organic 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 ~30.6% of the total assets at end Dec19 – increasing 16.16% YoY (CY19: PKR 263.33bln, CY18: PKR 226.69bln). At end Dec19, the Non-performing loan base of the Bank witnessed a decrease of PKR 147mln and was reported at PKR 17.53bln. NPL ratio has improved to 6.2% as compared to 7.3% in CY18.

Market Risk The investment portfolio showed a significant growth of 29% to PKR 434.7bln during CY19 (CY18: PKR 336.8bln). The bank's investment portfolio constitutes 50.5% of total asset base (PKR 859.57bln) and government securities continue to dominate the overall investment book (99.6%).

Liquidity And Funding Bank's focus throughout the period under review remained on improving deposit profile and managing spreads. Total Deposits were reported at Dec19 PKR 611.8bln as against PKR 543.6bln last year – mainly led by growth in saving accounts by 22.4% followed by growth in current accounts by ~20%.

Capitalization HMBL is a well-capitalized institution with an equity base and CAR well above the regulatory requirements. Bank's CAR on Dec19 was 14.59% (Dec18: 13.12%), which is above the regulatory requirement of 12.5%.



PKR mln

**Habib Metropolitan Bank
Listed Public Limited**

Dec-19	Dec-18	Dec-17
12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	277,545	235,405	179,356
2 Investments	434,696	336,831	389,506
3 Other Earning Assets	44,519	28,715	25,988
4 Non-Earning Assets	102,197	71,325	63,722
5 Non-Performing Finances-net	617	1,119	2,093
Total Assets	859,575	673,396	660,666
6 Deposits	611,869	543,578	508,104
7 Borrowings	144,464	51,347	64,039
8 Other Liabilities (Non-Interest Bearing)	59,004	41,469	48,025
Total Liabilities	815,337	636,394	620,168
Equity	44,238	37,002	40,498

B INCOME STATEMENT

1 Mark Up Earned	72,206	42,520	33,838
2 Mark Up Expensed	(54,815)	(26,297)	(19,867)
3 Non Mark Up Income	7,347	6,074	5,644
Total Income	24,738	22,297	19,615
4 Non-Mark Up Expenses	(13,094)	(11,840)	(10,598)
5 Provisions/Write offs/Reversals	(406)	(382)	113
Pre-Tax Profit	11,238	10,074	9,129
6 Taxes	(4,654)	(3,914)	(3,620)
Profit After Tax	6,583	6,161	5,509

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	2.3%	2.4%	2.4%
Non-Mark Up Expenses / Total Income	52.9%	53.1%	54.0%
ROE	16.2%	15.9%	13.7%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	5.1%	5.5%	6.1%
Capital Adequacy Ratio	14.6%	13.1%	17.2%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	62.4%	63.8%	74.1%
(Advances + Net Non-Performing Advances) / Deposits	43.1%	41.7%	34.3%
CA Deposits / Deposits	30.4%	28.4%	28.1%
SA Deposits / Deposits	32.9%	30.3%	24.8%

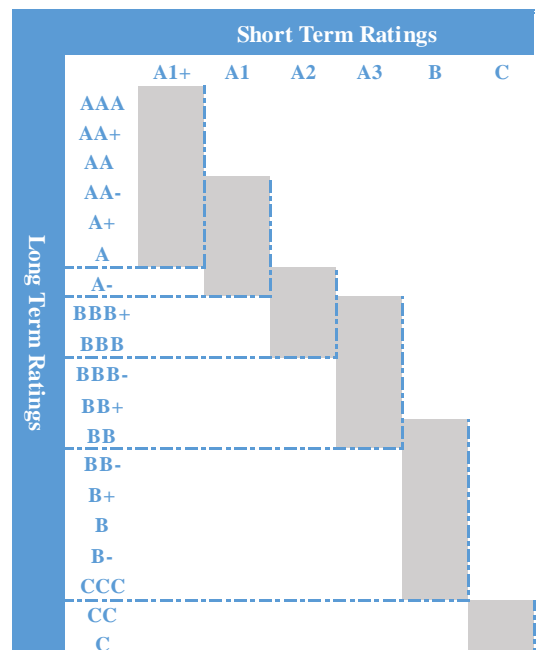
4 Credit Risk

Non-Performing Advances / Gross Advances	6.2%	7.3%	9.7%
Non-Performing Finances-net / Equity	1.4%	3.0%	5.2%

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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.
- (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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