



The Pakistan Credit Rating Agency Limited

# HABIB METROPOLITAN BANK LIMITED

	<b>NEW [JUNE-16]</b>	<b>PREVIOUS [JUNE-15]</b>
<b>Entity</b>		
Long Term	AA+	AA+
Short Term	A1+	A1+
<b>Outlook</b>	Stable	Stable

<b>REPORT CONTENTS</b>
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

**Assets:**

- During CY15, HMB outpacing the industry's growth (~11%) observed a sizeable expansion in its deposit base with 26% growth. This trend in deposits along with a stagnant position of advances portfolio led to a significant decline in the bank's advances to deposit ratio (ADR) (Dec15: 33%, Dec14: 42%)
- Advances were deployed by the self-liquidating loan portfolio – working capital and trade finance – (73%) and exposure of (27%) in fixed investment
- During CY15, the bank's total earning assets grew by 23%, primarily due to increase in Investments. The Investment book increased by PKR 59bln – mainly funded by deposits

**Funding**

- The bank's liquidity profile improved significantly owing to expansion in the investment book. This is reflected in its liquid assets-to-deposits-and-borrowings ratio which stood at 73.5% at end-Dec15 (CY14: 70.3%)

**Credit Risk**

- Advances to the corporate (Public and Private) sector (87%) represent the major portion of the bank's portfolio followed by Commodities (6%) and SME (5%)
- The bank's asset quality has improved due to decrease in NPLs resulting in a decrease in the infection ratio to 12.3% (Dec14: 12.9%)

**Market Risk**

- The investment portfolio (PKR 281bln), constituting 64% of the total earning assets at end Dec-15, is dominated by government securities (93%) – T-bills (28%) and PIBs (65%), of which 11% of total PIBs are held to maturity. Meanwhile, the unrealized gain on PIB account up to PKR 5.4bln

**Performance**

- The sizeable uptick in the bank's net interest revenue (CY15: 28.6%, CY14: 23.5%) is due to an increase in the overall earning assets with a greater composition of high yielding PIBs
- The higher contribution of gain on sale of investments (mainly PIBs) and income from dealing in foreign currency positively benefited the operating income on a YoY (CY15: PKR 9.2bln; CY14: PKR 5.7bln)
- HMB registered a healthy increase (~71%) in its profitability on a YoY basis. During 1QCY16, the trend in the bank's profitability continued, supported by higher other operating income due to sizeable gain realized on sale of PIBs. Unrealized capital gains account up to PKR 5.8bln

**Capital**

- The bank's capitalization declined nominally with equity-to-total-assets at 6.8% at end-Dec15 (Dec14: 7.6%)
- The bank has a strong CAR (CY15: 18.4%, CY14: 17.3%), with key contribution from Tier I capital (16.7%) and Tier II capital (1.7%). Bank's performance in terms of ROE (24%) remains robust

**Business Strategy**

- Going forward, HMB intends to fortify its position in its respective niche, while enhancing the quality of services
- To boost lending book, bank is eyeing on government projects related to CPEC. Meanwhile, solid efforts are in place to reduce the cost of its deposits

**Profile**

- Habib Metropolitan Bank (Habib Metro), originally Metropolitan Bank Limited, started banking operations in 1992, and is listed on Pakistan Stock Exchange
- During 2015, the bank opened 36 new branches across 15 new cities. The bank has a nationwide network of 276 branches at end-Dec15

**Governance and management**

- HMB's nine member Board of Directors (BoD) comprises CEO, two representatives of HBZ, two independent directors, three non-executive directors and one nominee of NIT
- The CEO, Mr. Sirajuddin Aziz, carries experience of over three decades pertaining to domestic and international banking industry
- A professional team of senior executives assists the Chief Executive.

**RATING RATIONALE**

The ratings incorporate HabibMetro's association 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 ratings recognize the bank's healthy financial profile reflected in its strong CAR, predominantly constituting Tier-I Capital (~17% at end Dec-15) and improved profitability. The bank experienced relatively high infection compared to most peers, though coverage is high. Lately it has been successful in arresting the trend. The bank sustained its dominant position in its niche market - self-liquidating trade finance - though with higher focus of other banks, the competition is increasing. The bank needs to diversify its deposit while bringing efficiency to its cost structure.

**KEY RATING DRIVERS**

The ratings are dependent on the management's ability to uphold the position in its market niche while marking its footprints in northern region in terms of business diversification and growth. Any weakening in asset quality, in turn, putting pressure on the bank's profitability and risk absorption capacity, may have negative implications for the ratings.



The Pakistan Credit Rating Agency Limited  
Habib Metropolitan Bank Limited

	PKR mln			
<b>BALANCE SHEET</b>	<b>31-Mar-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
	Quarterly	Annual	Annual	Annual
<b>Earning Assets</b>				
Advances (Net of NPL)	143,920	131,589	130,839	127,170
Debt Instruments	6,265	7,156	3,359	3,102
Total Finances	150,185	138,745	134,198	130,272
Investments	318,638	274,090	218,488	139,422
Others	12,617	24,926	3,957	1,604
	<b>481,440</b>	<b>437,761</b>	<b>356,643</b>	<b>271,298</b>
<b>Non Earning Assets</b>				
Non-Earning Cash	31,720	33,962	19,962	23,158
Deferred Tax	2,026	1,939	1,269	2,947
Net Non-Performing Finances	684	956	3,251	2,583
Fixed Assets & Others	9,069	15,262	16,255	11,468
	<b>43,499</b>	<b>52,119</b>	<b>40,737</b>	<b>40,156</b>
<b>TOTAL ASSETS</b>	<b>524,939</b>	<b>489,879</b>	<b>397,380</b>	<b>311,454</b>
<b>Interest Bearing Liabilities</b>				
Deposits	414,619	403,355	320,023	247,644
Borrowings	53,001	31,463	24,884	15,486
	467,620	434,818	344,907	263,129
<b>Non Interest Bearing Liabilities</b>	20,697	18,234	17,722	12,769
<b>TOTAL LIABILITIES</b>	<b>488,317</b>	<b>453,052</b>	<b>362,629</b>	<b>275,899</b>
<b>EQUITY (including revaluation surplus)</b>	<b>36,622</b>	<b>36,828</b>	<b>34,750</b>	<b>35,556</b>
<b>Total Liabilities &amp; Equity</b>	<b>524,939</b>	<b>489,879</b>	<b>397,380</b>	<b>311,454</b>
<b>INCOME STATEMENT</b>	<b>31-Mar-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
Interest / Mark up Earned	8,366	36,850	32,273	24,628
Interest / Mark up Expensed	(5,487)	(22,466)	(21,086)	(15,577)
<b>Net Interest / Markup revenue</b>	<b>2,879</b>	<b>14,384</b>	<b>11,187</b>	<b>9,052</b>
Other Income	2,204	9,182	5,711	4,794
<b>Total Revenue</b>	<b>5,083</b>	<b>23,566</b>	<b>16,898</b>	<b>13,846</b>
Non-Interest / Non-Mark up Expensed	(2,111)	(8,801)	(7,807)	(6,625)
Pre-provision operating profit	2,972	14,765	9,091	7,221
Provisions	(418)	(2,226)	(1,779)	(2,109)
Pre-tax profit	2,554	12,539	7,312	5,112
Taxes	(895)	(4,883)	(2,386)	(1,586)
<b>Net Income</b>	<b>1,659</b>	<b>7,656</b>	<b>4,927</b>	<b>3,526</b>
<b>Ratio Analysis</b>	<b>31-Mar-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
<b>Performance</b>				
ROE	20%	24%	17%	13%
Cost-to-Total Net Revenue	42%	37%	46%	48%
Provision Expense / Pre Provision Profit	14%	15%	20%	29%
<b>Capital Adequacy</b>				
Equity/Total Assets	6%	7%	8%	9%
Capital Adequacy Ratio as per SBP	18%	18%	17%	16%
<b>Funding &amp; Liquidity</b>				
Liquid Assets / Deposits and Borrowings	73%	73%	70%	61%
Advances / Deposits	35%	33%	42%	52%
CASA deposits / Total Customer Deposits	58%	57%	58%	59%
<b>Intermediation Efficiency</b>				
Asset Yield	7%	9%	10%	9%
Cost of Funds	5%	6%	7%	6%
Spread	3%	4%	3%	3%
<b>Outreach</b>				
Branches	277	276	240	214



## STANDARD RATING SCALES & 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b> <b>AA</b> <b>AA-</b>	<p><b>Very high credit quality.</b> Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
<b>A+</b> <b>A</b> <b>A-</b>	<p><b>High credit quality.</b> Low expectation of credit risk.</p> <p>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.</p>	
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><b>Good credit quality.</b> Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Moderate risk.</b> Possibility of credit risk developing.</p> <p>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.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><b>High credit risk.</b></p> <p>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.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>Very high credit risk.</b></p> <p>“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.</p>	
<b>D</b>	<p>Obligations are currently in default.</p>	

**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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

**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’.

**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, a suspended 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, or e) the entity/issuer defaults.

**Disclaimer:** PACRA's rating is an assessment of the credit standing of an entity/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.

[Rated Entity](#)

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

Habib Metropolitan Bank Limited  
 Banking  
 Solicited

**Purpose of the Rating**

Independent Risk Assessment  
 Regulatory Requirement

**Rating History**

Dissemination Date	Long Term	Short Term	Outlook	Action
23-Jun-16	AA+	A1+	Stable	Maintain
25-Jun-15	AA+	A1+	Stable	Maintain
26-Jun-14	AA+	A1+	Stable	Maintain
27-Jun-13	AA+	A1+	Stable	Maintain
29-Jun-12	AA+	A1+	Stable	Maintain
30-Jun-11	AA+	A1+	Stable	Maintain

**Related Criteria and Research**

Rating Methodology  
 Sector Research

Bank Rating Methodology  
 Banking Sector - Viewpoint | Mar-15

**Rating Analysts**

Usama Liaquat                      Rai Umar Zafar  
[usama.liaquat@pacra.com](mailto:usama.liaquat@pacra.com)      [rai.umar@pacra.com](mailto:rai.umar@pacra.com)  
 (92-42-35869504)                      (92-42-35869504)

[Rating Team Statement](#)

**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

**Rating Shopping**

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

**Conflict of Interest**

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

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 ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should 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

**Surveillance**

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

**Reporting of Misconduct**

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

**Confidentiality**

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

**Prohibition**

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell

[Probability of Default \(PD\)](#)

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](http://www.pacra.com)). However, actual transition of rating may not follow the pattern observed in the past