

**HABIB METROPOLITAN BANK LIMITED (HMB)****Ratings (June 2007)****Habib Metropolitan Bank Limited**

	New	Previous
Entity		
Long Term	AA+	AA+
Short Term	A1+	A1+

L.T. Entity Rating History

AAA					
AA+					
AA					
AA-					
	Jun 2003	Jun 2004	Jun 2005	Jun 2006	Jun 2007

Financial Data

PKR (mln)

	31-Dec-06	31-Dec-05
Total Assets	148,668.4	79,563.7
Equity	10,665.2	5,093.4
Net Income	2,095.9	1,505.9
ROA %	1.84	2.04
ROE %	26.6	34.77
Equity/ total assets %	7.17	6.40
SBP CAR %	11.88	10.74

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ASSESSMENT

- The ratings reflect the strong position of the bank in its respective niche – self-liquidating trade finance to corporates and SMEs. While consolidating its strength, the management continues to focus on product innovation, enhanced reach through network expansion, and technology up-gradation for ensuring quality services to its customers, thereby retaining its relative positioning in the face of intensifying competition within the sector. The bank continues to maintain outstanding asset quality – an outcome of conservative risk appetite as well as effective risk management. The ratings also take into account the bank’s association with a geographically diversified international sponsoring group – Habib Bank AG Zurich (HBZ).
- The amalgamation of Pakistan operations of HBZ with and into Metropolitan Bank Limited (MBL) took place on October 26, 2006 with simultaneous change in name to HMB. All the profits of HBZ up to this date were capitalized upon amalgamation. Thus, the profitability during 2006 mainly represented performance of MBL on a standalone basis with only around 2 months post merger combined operations. Both MBL and HBZ, belonging to Habib Group, shared a largely similar business model of conservative risk appetite with focus on trade financing. Hence operational as well as cultural integration of both entities, with well-conceived amalgamation plan of the management, was achieved in a relatively smooth manner. The merged entity is now a leading player in the import/export business of the country, generating sizeable fee-based income.
- HMB outperformed its historical growth pattern during 2006, with largely equal emphasis on deposit mobilization and growth in advances. The bottomline of the bank improved mainly because of the growth in business volume, both funded and non-funded, though the growth in funded business surpassed the increase in non-funded – a business trend which reversed during 1Q2007. Although the Bank’s average yield on earning assets reflected a YoY consistent increase, the spreads of the bank took a slight dip due to a proportionately higher increase in the cost of funds. However, this situation has been redressed during 1Q2007, as spreads have come to almost the same level as before.
- Going forward, the bank plans to follow a multi pronged strategy to: (i) expand and restructure the bank’s branch network, in addition to deploying field sales force and focusing on e-banking, (ii) improve product quality and introduce more innovative products, (iii) accelerate growth in consumer and Islamic banking, (iv) improve control, efficiency & build capacity, with focus on training of human resource and further centralization of banking processes, and (v) develop alternative revenues, by entry into brokerage services through a wholly owned subsidiary.
- The bank continues to follow the policy of upgrading its core banking software, hPLUS – an integrated banking solution, provided by Bilogic System Inc. This software is expected to meet all the requirements prescribed under Basel II.
- HMB’s asset quality continues to remain very strong, a reflection of conservative risk management process. Although the bank has a relatively high but diversified exposure to the textile sector, its cautious credit appraisal process/monitoring, and significant proportion of self-liquidating trade financing mitigate the associated risk. The bank, being conscious of the need to strengthen the risk management framework, has embedded the risk management in its strategy, organizational structure, and processes. An independent Risk Management Department, staffed with experienced professionals, is responsible to manage credit risk, market risk and operational risk, with appropriate segregation of duties.
- HMB is well capitalized and its equity-to-total assets ratio remains strong relative to most peers. The bank’s CAR improved to 12% compared to the previous level of 11% on account of hefty increase in the tier 1 capital through merger and also retention of profits.

KEY RATING DRIVERS

- These ratings are dependent on the sustained competitiveness of the bank in its respective niche while ensuring growth in business volumes and, in turn, in profitability. Meanwhile, given significant exposure to the textile sector, prolonged crisis therein leading to material deterioration in the bank’s asset quality may negatively impact the ratings.

PROFILE

- HMB, commencing operations in 1992, is listed on all bourses of Pakistan. Subsequent to recent merger, the bank is a 51% owned subsidiary of HBZ, incorporated in Switzerland. HBZ, with consolidated assets of above US\$6bln, has operations in eight countries directly and through subsidiaries. This provides inherent strength to the bank given high credibility and standing of HBZ. The Chief Executive of the bank is a former Governor of the State Bank and also a former president of Habib Bank Limited, one of the largest banks in the country. A highly professional team of senior executives including the executive director, who has emerged as the key professional in evolving the bank’s strategy as well as its implementation, assists the Chief Executive.