

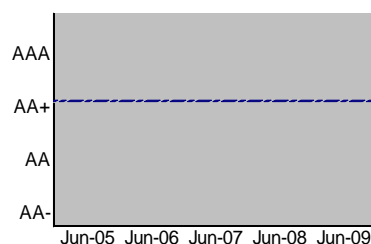


RATINGS (JUNE 2009)

HABIB METROPOLITAN BANK (HMB)

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

LT RATING HISTORY



FINANCIAL DATA

PKR (mln)

	Mar-09*	Dec -08	Dec -07
Total Assets	189,280	182,357	172,868
Equity	17,157	16,237	13,464
Net Income	920	3,277	2,797
ROA%	1.9	1.9	1.7
ROE%	21.4	22.1	23.2
Equity/Total Assets %	9.1	8.9	7.8
SBP CAR%	12.3	10.4	12.5

* Based on 3-months unaudited accounts for the period ended Mar 31, 2009

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect the bank's demonstrated ability to maintain its robust performance and established position despite intensifying competition in the banking industry. The ratings also incorporate HMB's leading position in its niche market – self liquidating trade finance – its very strong asset quality and the management's initiatives in the ambit of technology upgradation and network consolidation to sustain envisaged growth pattern. Meanwhile, the bank's association with a geographically diversified international bank – Habib Bank AG Zurich (HBZ) – is also a key rating factor.
- The management's success in sustaining competitiveness in its respective niche while ensuring growth in business volumes and, in turn, in profitability would remain critical for ratings. Meanwhile, material deterioration in HMB's asset quality, impacting its risk absorption capacity, may negatively impact the ratings.

ASSESSMENT

- CY08 proved to be a difficult year for the banking sector due to multifacet challenges faced by the economy, resulting in weakened asset quality for the sector. However, HMB, the 10th largest bank in Pakistan in term of total assets, achieved substantial growth in advances and also modestly improved its system share. The bottom line of the bank registered healthy growth driven by substantial increase in net interest revenue on the back of enhanced advances and higher fee based income emanating from rising volume of trade business. The bank continued its strong performance trend in 1Q09 despite an upsurge in operating cost, mainly attributable to expansion in network.
- Going forward, the bank's strategy is to improve efficiency, enlarge product portfolio and enter new customer segments. In this regard, the management would concentrate on SME and personal/retail banking by capitalizing on its existing relationships with corporates and creating synergic value for various stakeholders. Although the trade finance, mainly to commercial segment, remains the cornerstone of expansion strategy, the bank intends to expand its product offering to fortify its services portfolio. HMB, to date, has remained a niche player with concentrated borrower segment, mainly relating to Karachi with age-known business pattern, the envisaged geographical and product/ borrower expansion would require careful execution and close monitoring. The bank is also focusing on exploring new business opportunities in brokerage, modaraba and assets management segments.
- HMB's asset quality continues to remain very robust. The impairment in loan book, though increased, remains very low (end Mar-09: 2%). However, the client concentration is relatively high, with top twenty exposures representing around 32% of the total loan book. This risk is mitigated to a certain extent based on established relationship and track record of the borrowers. Even though the bank has a relatively high, albeit diversified, exposure to the textile sector (CY08: 54%), its cautious credit appraisal process, regular monitoring and strong collateral mitigate the associated risk.
- HMB has one of the lowest spreads among peers, attributable to its focus on high credit quality business, in addition to relatively large portion of higher cost term deposits in the deposit base. The bank's focus on reducing the share of term deposits in its deposit mix (CY08: 51%, 1Q09: 45%), if achieved on a sustainable basis, will reflect positively on net spread. The deposit base is moderately concentrated with top 20 depositors constituting around 22% of total deposits.
- The bank maintains a high proportion of liquid assets (mainly short-dated government securities) as indicated by its robust liquid assets to deposits and borrowings ratio (42% at end CY08). Although, the advances to deposit ratio has increased to 86% in CY08 (CY07: 74%), a significant part of advances is funded by SBP Refinance Scheme (net of refinance advances to deposits ratio is 69%), having minimal impact on liquidity profile.
- The bank's core operating software hPlus, provided by Bilogic System Inc., is an integrated banking solution and has been upgraded to meet the growing banking requirements. The bank is adding several features to its web based services to improve its marketability and access to customers.
- HMB is well capitalized and its equity-to-total assets ratio remains comparable to most peers. The CAR declined (CY08: 10.4%; CY07: 11.3%) due to high growth in risk weighted assets. Nonetheless, the CAR primarily remains a function of Tier I capital (95%), showing significant room to support expansion (through Tier II capital).

PROFILE

- HMB, commencing operations in 1992, is listed on all three bourses of Pakistan. The bank is a 51% owned subsidiary of HBZ, incorporated in Switzerland. HBZ, with total assets of around USD 6.7bln at end-08, has operations in eight countries directly and through subsidiaries. HMB is a leading player in trade financing and has a sizeable market share in the foreign trade. The bank has a nationwide network of 110 branches (including 4 Islamic banking branches) spread over 16 cities with high concentration in Karachi and Lahore. The management intends to add 10 more branches by end 2009. The overall control of the bank is vested in the nine members BoD. The BoD comprises three directors from Habib family, including one executive director, three independent directors and one nominee director of NIT.
- First time, since the inception of the bank, there was a change at top level with the retirement of Mr. Kassim Parekh. The new Chief Executive of the bank brings with him 33 years of banking experience with Citi bank in Pakistan and other countries. During his stay with Citi bank, he served in various managerial and executive positions. A highly professional team of senior executives including the executive director, who plays a pivotal role in evolving the bank's strategy as well as its implementation, assists the Chief Executive.

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