The Pakistan Credit Rating Agency Limited

HABIB METROPOLITAN BANK LIMITED

	NEW [JUNE-17]	PREVIOUS [JUNE-16]
Entity		
Long Term	AA+	AA+
Short Term	A1+	A1+
Outlook	Stable	Stable

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JUNE 2017

Assets:

- During CY16, HabibMetro's deposit base grew by 7% whereas the industry deposit base grew by 13%.
- The advances to deposit ratio (ADR) remained steady (Dec16: 33%, Dec15: 33%).
- During CY16, gross advances increased (CY16: PKR 159.8bln: CY15: PKR 150.0bln).
- The contribution of the bank's CASA remained steady (Dec16:56.6%, Dec15: 56.6%). The bank's share in this segment remains low in comparison to its peer banks.

Funding

- The bank's liquidity profile remained steady as reflected in its liquid assets-to-deposits-and-borrowings ratio which stood to 74% at end-Dec16 (2015: 73%).

Credit Risk

- Advances to the corporate sector (80%) represent the major portion of the bank's portfolio followed by Commodities (8%) and SME (8%).
- The NPL's of the bank increased during CY16 with the infection ratio simultaneously rising to 12.43% (CY15: 12.32%).
- The coverage ratio also reduced to 85.2% .

Market Risk

- HMB's investment portfolio witnessed an increase of ~7% (CY16: PKR 315bln, CY15 PKR 293bln) and constitutes 67% of the total earning assets at end-Dec 16.
- Dominated by government securities (95%) – Tbills (54%) and PIBs (35%), of which75% of total PIBs are available for sale.
- HMB gradually shifting its exposure from PIB's to T-bills in CY16 on the account of reduced interest rate from PIBs.

Performance

- The bank's net interest revenue decreased by ~19% owing to reduced income emanating from high-yield PIB.
- The bank registered an increase of ~7% in the operational expenses on a YoY basis in line with the branch expansion strategy.
- The provisioning expense decreased drastically in comparison to previous year with the bank recognizing reversal in provision in CY16.
- During 1QCY17, the trend in the bank's reduced profitability continued, on the basis of decreasing total revenue.

Capital

- HMB's paid up capital stands at PKR 10,478mln thus safely meeting the MCR of PKR 10,000mln for Dec – 16
- The bank has a strong CAR (CY16: 18.15%, CY15: 18.35%), with key contribution from Tier I capital (17.27%) and Tier II capital (0.88%).
- The bank's growth trend has been a factor for high CAR.

Business Strategy

- Going forward, the bank aims to target organic growth, mobilization of low-cost deposits and improvement of asset quality.
- Both avenues are areas of attention, as the bank has very low concentration of CASA and continues to have stressed asset quality.

Profile

- Habib Metropolitan Bank (Habib Metro), originally Metropolitan Bank Limited, started banking operations in 1992, and is listed on Pakistan Stock Exchange.
- During 2016, the bank opened 31 new branches across 10 new cities. The bank has a nationwide network of 307 branches at end-Dec16.

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, pre-dominantly constituting Tier-I Capital (17.27% at end Dec-16). The bank has experienced downtrend in profitability which will remain a challenge in days to come. With dynamic competition in the market, holding onto a sustained market share (deposits and advances) with profitable growth has become increasingly difficult. The bank's strategy envisages re-orientation of the bank towards supply chain. The bank experienced relatively high infection compared to most peers, though these are considerably covered. NPL's are high; management's efforts must translate in sustained asset quality - indeed improvement. The bank needs to diversify its deposit base.

KEY RATING DRIVERS

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. Any weakening in asset quality in turn will put pressure on the bank's profitability and risk absorption capacity.

INDUSTRY SNAPSHOT

The banking sector experienced substantial expansion in its deposit base (2016: 14%). Building on the uptick in the economy, advances also grew by a sizeable margin after a lag of many years. Given GDP growth in FY17 and other macro-economic fundamentals, credit expansion is foreseen. Hence, CAR is going to be a challenge, as profits would also suffer due to PIBs maturities.

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Habib Metropolitan Bank Limited

BALANCE SHEET	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
	3M	Annual	Annual	Annual
Earning Assets				
Advances (Net of NPL)	147,708	140,020	131,589	130,839
Debt Instruments	4,275	5,791	7,156	3,359
Total Finances	151,983	145,811	138,745	134,198
Investments	314,982	308,958	274,080	218,488
Others	14,277	16,795	24,925	3,957
	481,242	**471,565**	**437,751**	**356,643**
Non Earning Assets				
Non-Earning Cash	37,882	37,777	33,962	19,962
Deferred Tax	2,506	2,459	1,939	1,269
Net Non-Performing Finances	2,176	2,812	956	3,251
Fixed Assets & Others	11,214	11,994	15,272	16,255
	53,778	**55,042**	**52,129**	**40,737**
TOTAL ASSETS	**535,020**	**526,606**	**489,879**	**397,380**
Interest Bearning Liabilities				
Deposits	427,655	430,888	403,355	320,023
Borrowings	46,407	37,205	31,463	24,884
	474,062	468,093	434,818	344,907
Non Interest Bearing Liabilities	23,131	18,843	18,234	17,722
TOTAL LIABILITIES	**497,193**	**486,936**	**453,052**	**362,629**
EQUITY (including revaluation surplus)	**37,827**	**39,670**	**36,828**	**34,750**
Total Liabilities & Equity	**535,020**	**526,606**	**489,879**	**397,380**

INCOME STATEMENT	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
Interest / Mark up Earned	7,893	33,172	36,850	32,273
Interest / Mark up Expensed	(4,496)	(21,410)	(22,466)	(21,086)
Net Interest / Markup revenue	**3,397**	**11,762**	**14,384**	**11,187**
Other Income	1,304	8,836	9,182	5,711
Total Revenue	**4,701**	**20,598**	**23,566**	**16,898**
Non-Interest / Non-Mark up Expensed	(2,460)	(9,420)	(8,801)	(7,807)
Pre-provision operating profit	2,241	11,178	14,765	9,091
Provisions	(248)	(845)	(2,226)	(1,779)
Pre-tax profit	1,993	10,334	12,539	7,312
Taxes	(705)	(4,214)	(4,883)	(2,386)
Net Income	**1,288**	**6,119**	**7,656**	**4,927**

Ratio Analysis	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
Performance				
ROE	14%	17%	24%	17%
Cost-to-Total Net Revenue	52%	46%	37%	46%
Provision Expense / Pre Provision Profit	11%	8%	15%	20%
Capital Adequacy				
Equity/Total Assets	7%	7%	7%	8%
Capital Adequacy Ratio as per SBP	17%	18%	18%	17%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	74%	74%	73%	70%
Advances / Deposits	35%	33%	33%	42%
CASA deposits / Total Customer Deposits	57%	57%	57%	58%
Intermediation Efficiency				
Asset Yield	7%	7%	9%	10%
Cost of Funds	4%	5%	6%	7%
Spread	3%	3%	4%	3%
Outreach				
Branches	307	307	276	240

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

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 RATINGS

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 conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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 surveill the opinion due to lack of requisite information

Rated Entity

Name of Rated Entity Habib Metropolitan Bank Limited
Sector Banking
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
23-Jun-17	AA+	A1+	Stable	Maintain
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 Bank Rating Methodology
Sector Research Banking Sector - Viewpoint | Jun-17

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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.

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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

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