



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Metropolitan Financial Services Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Oct-2023	BMR2	-	Stable	Maintain	-
28-Oct-2022	BMR2	-	Stable	Maintain	-
29-Oct-2021	BMR2	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Habib Metropolitan Financial Services Limited (“HMFS” or “the Company”) is a public limited company primarily providing the services of equity brokerage to individuals and leading financial institutions. In FY23, tough economic conditions, high inflation, and interest rates had a considerable impact on the market. However, the first quarter of FY24 witnessed a noteworthy shift. Market volumes remained strong, leading to an upturn in overall market performance and a boost in brokerage revenue. This growth trend appears to be ongoing, revitalizing investor confidence and setting the stage for positive market indicators. The rating incorporates the business acumen of the primary sponsors, Habib Metropolitan Bank Limited, the experienced management team, and the availability of a client services platform with research reports available to customers. The governance framework is considered satisfactory; however, the inclusion of independent directors with relevant experience would strengthen corporate governance. HMFS has made a significant addition to its organizational structure this year, with the launch of its online sales department aimed at capturing retail clients. The assigned rating also takes into account sound internal controls, primarily attributed to the presence of a dedicated compliance department within the Company, with adequately documented and disseminated internal policies. HMFS has an in-house internal audit department, which strengthens the Company's control framework. The Company has established rigorous protocols regarding risk assessment by implementing KYC, CDD, AML, CFT, and whistleblowing Policies. The market risk is limited, as HMFS does not maintain any proprietary trading books. The brokerage revenue of HMFS declined by 37% during 1HCY23 compared with 1HCY22 whereas market volumes declined by 33% during the same period, indicating that HMFS performed in line with the market. As HMFS, has initiated its online sales department, it is expected that this strategic move will have a positive impact on the company’s revenue in the foreseeable future. The Company reported a net loss of ~PKR 15mln in 1HCY23 when compared to the net loss of ~PKR 3mln during SPLY. The increase in reported loss can be attributable to a significant reduction in trading volumes, which has led to a decrease in brokerage income. Additionally, there has been a substantial increase of ~52% in administrative expenses. The Company has an adequate equity base of ~PKR 309mln at the end of Jun;23 (SPLY: ~PKR 330mln).

Going forward, the ratings are dependent on the management's ability to increase and retain its market share and diversification in revenue base to improve its competitive position in the brokerage industry. Simultaneously, it is imperative to uphold robust internal controls, retention of key management personnel, and diligently monitor risks.

Disclosure

Name of Rated Entity	Habib Metropolitan Financial Services Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Assessment Framework Broker Management Rating(Jun-22)
Related Research	Sector Study Brokerage & Securities(Jan-23)
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Ownership

Ownership Structure Habib Metropolitan Financial Services Limited is a subsidiary of Habib Metropolitan Bank Limited. HMFSL was incorporated in 2007 as a public limited company under the Companies Ordinance, 1984 (Now Companies Act, 2017) and commenced its operations in 2008.

Stability Habib Metropolitan Bank Limited commenced its commercial-banking operations as Metropolitan Bank in October 1992, later on, the Bank merged with Habib Bank AG Zurich's Pakistan in Oct'06. The merged entity was named as 'Habib Metropolitan Bank Limited', referred to as HMBL currently operates through an omnipresent branch network of 521 branches in 207 cities across Pakistan at end-Jun'23.

Business Acumen HMFSL enjoys close institutional relationship with Habib Metropolitan Bank Limited, owned and managed by Habib Family, have been involved in banking for over 75 years, is considered pioneers of introducing banking in Pakistan.

Financial Strength The sponsors have sizeable net worth and may provide support to the Company with an increasing quantum of operations. Habib Metropolitan Bank Limited enjoys a rating of AA+, assigned by PACRA. The equity of HMBL stood at ~PKR 81bln at end-Jun'23.

Governance

Board Structure The Company has three directors on the board. Mr. Khurram Shehzad has resigned as director of HMFSL as he has been appointed the CEO of HMBL. Mr. Syed Ather Ahmed has replaced Mr. Khurram Shehzad as a non-executive director on Board. All the directors represent Habib Metropolitan Bank Limited. The presence of independent insight would be an encouraging factor from the ratings perspective.

Members' Profile The board possess the necessary skills and experience required for capital markets. The board members, on-average, possess more than ~20 years of experience in the field of finance and capital markets.

Board Effectiveness During 1HCY23, two board meetings were conducted and attended by majority of the board members. The board is always provided with MIS pack prior to the meeting and the meeting discussions are properly documented in the form of minutes. However, due to the size of the board, board-level committees have not been formed as per the industry best practice.

Financial Transparency The financial statements of the Company for the CY22 has been audited by KPMG Taseer Hadi and Company; 'A' category and a satisfactory QCR rated firm. The auditors have issued an unqualified opinion on the financial statements.

Management

Management Team The management of HMFSL possess necessary experience and qualifications to manage the Company's operations efficiently. Mr. Ather Husain Medina, the CEO, is a qualified professional with extensive work experience of over 29 years in the financial sector and has worked with BIPL Securities Ltd., Alfalah GHP Investment Management Ltd., Invest Capital Investment Bank Ltd. and Atlas Asset Management Ltd., among other reputed Financial Institutions. Moreover, HMFSL has appointed a new Head of Online Sales Department.

Organizational Structure The Company has a lean organizational structure to manage its operations and appropriate policies to protect the clients interest. HMFSL has made a significant addition to its organizational structure, with the launch of its online sales department to capture retail clients. The Company operates through the Head Office located in Karachi. All of the Departmental Heads reports to the CEO. However, the internal auditor reports directly to the Board.

Client Servicing HMFSL regularly publishes reports on market strategy, economy, daily news and market updates. HMFSL has provided direct links to relevant institutions and departments on their website. Moreover, various channels, including a mobile app and online trading platforms, are available to execute and monitor the transactions.

Complaint Management HMFSL has established Customer Complaint Policy to provide guidance to both customers and staff on the manner in which HMFSL receives and manages complaint. Customers can lodge complaint via call, email or by speaking directly to Manager Operations.

Extent Of Automation / Integration HMFSL has comprehensive and effective IT arrangement to deal with dynamic technological environment prevailing in the capital markets arena. The Company has entered into an agreement with PSX to provide its customers with online trading facility via KITS.

Continuity Of Operations HMFSL has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The business continuity plan provides a framework for business departments if a major incident occurs, causing disruption to pre-defined critical services.

Risk Management Framework The Company has an in-house internal audit department, which monitors implementation of the policies and procedures of HMFSL. Presence of an Audit Committee would have been helpful for an effective control environment and compliance with reporting standards. The Company has developed detailed policies to manage the risk arising from staff trading, KYC/AML and a trade review policy is also in place.

Regulatory Compliance Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures. Research analyst policy has also been formulated. The Head of Compliance, Mr. Mushtaq Ahmed has over 30 years of experience in the financial industry.

Business Sustainability

Business Risk The brokerage industry faced significant challenges during FY23 due to elevated political uncertainty and soaring inflation, which adversely impacted the country's economic landscape. As a result, market activities were subdued, with investors favoring the security of fixed returns from the higher interest rates prevalent in the economy. However, as FY24 commenced, there emerged a recovery in investor confidence. This can be attributed to the resumption of the IMF program and recent government initiatives aimed at tackling persistent economic issues, including addressing circular debt. Despite these positive trends, the political situation in the country remains unstable, leading many investors to adopt a cautious stance until the conclusion of the elections.

Business Profile HMFSL primarily offers the services of Equity Brokerage to HNWI's and Corporate/Institutional clients. HMFSL also facilitates its clients by providing them access to quality research.

Revenue And Profitability Analysis The Company's operating revenue is mainly concentrated in equity brokerage. During 1HCY23 the Company earned equity brokerage revenue of ~PKR 12mln (SPLY: ~PKR 19mln) which constituted ~34% of the total income. HMFS has performed in line with the market with a fall of ~38% in volumes compared to ~33% of the market. The equity took a hit due to losses suffered on the back of a decline in topline and an increase in administrative expenses.

Financial Sustainability

Credit Risk For the assessment of client's creditworthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The exposure limits as a whole and on individual basis are monitored and any shortfalls are immediately reported to senior management for prompt action.

Market Risk HMFSL does not operate any proprietary book hence, it has protected itself from the risk arising from volatility in the equity markets. The Company does not plan to trade proprietary book in the near future.

Liquidity Profile The liquidity profile of HMFSL is considered strong as the Company has reported current assets of ~PKR 387mln at end-Jun'23 as compared to current liabilities of ~PKR 106mln.

Financial Risk At end-Jun'23, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 211mln. The Company has an equity base of ~PKR 309mln at end-Jun'23 as compared to the equity of ~PKR 330mln during 1HCY22.



PKR mln

Habib Metropolitan Financial Services Limited
Public Unlisted Company

Jun-23	Dec-22	Dec-21	Dec-20
6M	12M	12M	12M

A BALANCE SHEET

1 Finances	0	0	0	0
2 Investments	111	112	121	122
3 Other Earning Assets	138	159	174	159
4 Non-Earning Assets	171	217	216	208
5 Non-Performing Finances-net	0	0	0	0
Total Assets	420	487	511	490
6 Funding	4	5	7	4
7 Other Liabilities (Non-Interest Bearing)	106	156	165	150
Total Liabilities	110	162	172	154
Equity	309	326	338	336

B INCOME STATEMENT

1 Fee Based Income	12	32	49	51
2 Operating Expenses	-49	-64	-56	-56
3 Non Fee Based Income	23	32	16	20
Total Operating Income/(Loss)	-14	0	9	15
4 Financial Charges	-0	-1	-1	-1
Pre-Tax Profit	-14	-0	8	14
5 Taxes	-2	-3	-4	-4
Profit After Tax	-16	-4	4	9

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	-2.4%	174.8%	11.0%	5.5%
Return on Equity (ROE)	-28.3%	-2.3%	1.8%	4.1%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	73.7%	66.8%	66.2%	68.6%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	-81.05	-17.83	-0.26	4.38

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	50.8%	57.0%	56.7%	58.6%
Liquid Assets / Trade Related Liabilities	230.4%	296.3%	185.6%	285.1%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	52.9%	112.3%	29.5%	59.3%
Equity Instruments / Investments	10.7%	11.6%	18.3%	19.4%

Broker Management Rating

An independent opinion on the quality of management and services provided by a broker

Scale	Definition
BMR 1A	Excellent. Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
BMR 1++ BMR 1+ BMR 1	Strong. Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
BMR 2++ BMR 2+ BMR 2	Sound. Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
BMR 3++ BMR 3+ BMR 3	Adequate. Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
BMR 4++ BMR 4+ BMR 4	Inadequate. Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
BMR 5	Weak. Weak regulatory compliance and business practices.

<p>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’.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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 rating outlook of the respective opinion.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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(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

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(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)

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(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 | Clause 11-(A)(p).

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(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)

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(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)

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(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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