



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
29-Oct-2021	BMR2	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Habib Metropolitan Financial Services Limited ("HMFSL" or the "Company") is a public unlisted company principally engaged in securities brokerage of both: ready and futures market. The Broker Management Rating reflects the Company's association with a well-established bank which is one of the dominant players in the banking sector. The rating incorporates the Company's sponsor support, experienced management team and a client services platform with quality research available to customers. The governance framework is considered sound; however, formation of board level audit and risk management committee's and inclusion of independent director with relevant experience would strengthen corporate governance. The Company has an adequate organizational structure to manage its operations. The assigned rating also takes into account sound internal controls with adequately documented and disseminated internal policies. The appointment of auditors from SBP's approved 'A' category list has strengthened the transparency. The Company has established rigorous protocols regarding risk assessment by implementing KYC, CDD, AML, CFT and whistle blowing policies. The IT infrastructure allows full integration of the front and back-office functions, allowing generation of real time reports. The Company has an in-house internal audit department, which ensure implementation of the policies and procedures of HMFSL. The Company has no proprietary trading book hence, less exposed to market risk in its own right. The average market share of HMFSL during FY21 stands at ~1.5%.; however, the brokerage income which clocked in at ~PKR 39mln for 9MCY21, lacks product diversification. The bottom-line of the Company improved to ~PKR 9.5mln in CY20 (SPLY: ~PKR 3.9mln) and stands at ~PKR 5mln for 9MCY21. The Company has an equity base of ~PKR 346mln at end-Sep'21. The rating takes comfort from leverage free capital structure.

The ratings are dependent on the management's ability to increase and retain its market share and diversification of revenue base to improve its competitive position in the brokerage industry. Retention of key personnel, adherence to regulatory requirements and sustainability of profitability will remain imperative from ratings perspective.

Disclosure

Name of Rated Entity	Habib Metropolitan Financial Services Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Methodology Broker Management Rating(Jul-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



Ownership

Ownership Structure Habib Metropolitan Bank Limited (HMBL) is the parent company of Habib Metropolitan Financial Services Limited ("HMFSL" or "The Company"). 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, the Bank merged with Habib Bank AG Zurich's Pakistan operations in Oct'06. The merged entity was named Habib Metropolitan Bank Limited. HMBL Bank currently operates with an expanding nationwide network of 454 branches in 165 cities across Pakistan at end-Sep'21.

Business Acumen HMFSL enjoys close institutional relationship with Habib Metropolitan Bank Limited. Habib family, having 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 increasing quantum of operations. Habib Metropolitan Bank Limited enjoys a rating of AA+, assigned by PACRA. The equity of HMBL stood at ~PKR 60bln at end-Sep'21.

Governance

Board Structure The Company has four directors on the board including the CEO and Chairman. There are 3 non-executive directors representing the HMBL and 1 executive director. 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 CY20, four 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, board level committees have not been formed as per the industry best practice.

Financial Transparency The external auditors of the Company are KPMG Taseer Hadi and Company. They have expressed an unqualified opinion on the financial statements for CY20. The firm is QCR rated by ICAP and is in the A Category of SBP's panel of auditors.

Management

Management Team The management of HMFSL possess necessary experience and qualifications to manage the Company's operations efficiently. The CEO, Mr. Manzar Mushtaq holds a Bachelor Degree in Arts from Clark University, USA. He has rich experience expanding decades in the financial world.

Organizational Structure The Company has well developed organizational structure to manage its operations and appropriate policies to protect the clients interest. The Company operates through the Head Office located in Karachi. The Head of Compliance, Sales, Finance and Research reports to the Company's 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 CFO/ Company Secretary or Head of Internal Audit.

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 20 years of experience in the financial industry.

Business Sustainability

Business Risk During CY21 through September 30th, the benchmark KSE-100 Index has delivered a modest return of ~3%. The stock market has been under severe selling pressure since the last quarter. The developments in the neighboring Afghanistan, widening of Current Account Deficit (CAD) that clocked-in at USD 1.5 billion in August 2021 and devaluation of the PKR versus US dollar coupled with rising industrial raw material and energy prices have ignited concerns within the investors community. Going forward, stock market may take positive direction from the development on the resumption of the IMF programme resulting in improved volumes and investors interest.

Business Profile HMFSL's primarily offers the services of Equity Brokerage and Research. The clientele of the Company is segmented into three categories i) HNWI's ii) Corporate & Financial Institutions and, iii) Retail.

Revenue And Profitability Analysis The Company's operating revenue is mainly concentrated in equity brokerage. During 9MCY21 the Company earned equity brokerage revenue of ~PKR 39mln (SPY: ~PKR 39mln) which contributed ~76% to the total income. The Company has reported a net profit of ~PKR 5mln during 9MCY21 compared to a profit of ~PKR 9.7mln in 9MCY20.

Financial Sustainability

Credit Risk For the assessment of client's credit worthiness, 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 462mln at Sep'21 as compared to current liabilities of ~PKR 149mln.

Financial Risk At end-Jun'21, the Net Capital Balance (NCB) of the Company stood at ~PKR 254mln. The Company has an equity base of ~PKR 346mln at end-Sep'21.



PKR mln

Habib Metropolitan Financial Services Limited
Public Unlisted

Sep-21	Dec-20	Dec-19	Dec-18
9M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	128	122	118	120
3 Other Earning Assets	151	159	163	186
4 Non-Earning Assets	224	208	182	199
5 Non-Performing Finances-net	-	-	-	-
Total Assets	503	490	464	505
6 Funding	9	5	6	32
7 Other Liabilities (Non-Interest Bearing)	147	149	136	153
Total Liabilities	157	154	141	185
Equity	346	336	323	320

B INCOME STATEMENT

1 Fee Based Income	39	51	30	30
2 Operating Expenses	(43)	(56)	(54)	(55)
3 Non Fee Based Income	12	20	26	14
Total Operating Income/(Loss)	8	15	2	(11)
4 Financial Charges	(1)	(1)	(1)	(0)
Pre-Tax Profit	7	14	0	(12)
5 Taxes	(2)	(4)	4	(4)
Profit After Tax	5	10	4	(16)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	9.0%	5.5%	87.6%	-4.2%
Return on Equity (ROE)	2.5%	4.1%	2.2%	-7.3%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	68.9%	68.6%	69.5%	63.4%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	1.62	4.38	-10.24	-0.81

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	36.2%	37.5%	34.5%	55.5%
Liquid Assets / Trade Related Liabilities	151.8%	182.3%	128.3%	232.4%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	44.6%	59.3%	33.5%	63.6%
Equity Instruments / Investments	22.9%	19.4%	16.9%	18.1%

Broker Management Rating

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

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 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.

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 rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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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Rating Team Statements

(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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (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)

Conduct of Business

- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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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)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (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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