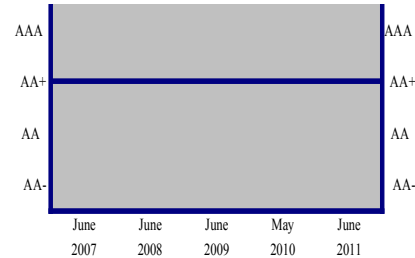


RATINGS (JUNE 2011)

HABIB METROPOLITAN BANK (HMB)

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

ENTITY RATING HISTORY – LONG TERM



FINANCIAL DATA

(Amounts in PKR mln)

	Mar-11	Dec-10	Dec-09
Total Assets	262,299	252,211	237,412
Equity	21,711	20,954	18,889
Net Income	757	2,818	2,740
ROE (%)	*14.19	14.15	15.64
ROA (%)	*1.18	1.15	1.30
Equity/ Total Assets (%)	8.28	8.31	7.96
Net NPLs / Equity (%)	15.89	16.41	9.18
SBP CAR (%)	10.65	10.64	11.87

*Annualized

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect HMB’s association with a geographically diversified and financially strong international bank – Habib Bank AG Zurich (HBZ). The ratings incorporate the bank’s healthy financial profile emanating from a strong equity base and sound liquidity position. Despite an increasingly competitive and challenging operating environment, the bank has sustained its leading position in its niche market – self liquidating trade finance – while ensuring consistent growth in fee based income, supplementing core profitability. The bank’s asset quality has come under pressure. However, infection is concentrated in a few accounts related to the bank’s specific market, wherein restructuring is in progress.
- The management’s ability to successfully execute its business strategy of diversification and growth while maintaining its market standing in its respective niche would remain crucial for ratings. At the same time, sustained improvement in the overall risk management framework with a view to curtailing infection is critical; any material deterioration in the asset quality putting pressure on the bank’s risk absorption capacity would have negative implications for the ratings.

ASSESSMENT

- The macroeconomic landscape of Pakistan remains uncertain. Although a few indicators have improved as reflected in current account surplus of the country, prolonged energy crisis, stubborn inflationary pressure, and burgeoning fiscal imbalance continue to pose major challenges to economic growth. This is also reflected in continuing weakening in the asset quality of the banks. The pace of accumulation of NPLs has stalled lately, but it would be challenging for the banks to maintain asset quality amidst subdued business sentiments.
- HMB registered expansion in gross advances as well as deposits largely inline with the industry growth trend. Advances remained dominated by the self-liquidating loan portfolio (79%) with minimal exposure in fixed investment (11%). Nevertheless, the advances book was largely concentrated in one sector – textile (55%), owing to inherent focus of the bank on trade business. The client concentration was higher with top 20 customers representing 32% exposure at end-Dec10. Deposit base also depicted higher concentration with 6 depositors having more than 1% each contribution to the deposit base (total 11%).
- HMB witnessed a slight squeeze in its spreads, attributable mainly to a modest contraction in the bank’s asset yield. This manifested in the bank’s slightly reduced net interest margin. Nevertheless, the other operating income experienced a robust uptick, on the back of higher trade business and income from dealing in foreign currency. This raise in income cushioned the increase in the bank’s non-mark-up expenditure. Due to rising infected portfolio, the bank had to provide a sizeable amount on account of provisioning expense. Nevertheless, the bank was able to maintain its RoE, supplemented by higher other operating income. The bank has continued its performance trend in 1Q11, with annualized RoE of 14%.
- Going forward, the bank sees rising NPLs, shrinking margin and higher cost of deposit as key challenges to manage. The bank intends to complete consolidation of its operations in 2011 that it started two years back. This would enable the bank to build capacity for future growth. While exercising vigilance with reference to new exposures, the bank plans to restructure its bad portfolio. With higher emphasis on quality of service and larger bouquet of products, HMB would fend off competitive pressure on its business margin. The bank has developed a sophisticated program to tap retail market, which would make contribution towards both business expansion and low cost deposit. The business plan depicts clarity of direction though the extent of success remains to be seen given increasingly competitive environment.
- HMB observed rising infection as reflected by its NPLs to Gross Advances ratio (2010: 8.6%, 2009: 5.9%). This was majorly driven by global financial meltdown translating into non-payment of export proceeds. However, a dominant portion of NPLs is concentrated in top thirty customers, with a sizeable portion of customers close to restructuring. Owing to the continuing subdued macroeconomic environment, the bank envisages that infection would initially rise in 2011 and then gradually taper off.
- The bank’s core operating software hPLUS, provided by Bilogic System Inc., is an integrated banking solution and has been consistently upgraded to meet the growing banking requirements.
- HMB’s Investments portfolio (excluding debt securities) constitutes ~38% of total assets at end-Mar11. The investment book was dominated by government securities (88%), followed by income based mutual funds (11%).
- The bank’s capitalization has largely remained the same with equity-to-total-assets at 8.3% (2009: 7.9%). HMB’s CAR, which entirely comprises Tier I capital, has declined considerably on account of rise in the risk weighted assets. The bank is considering various options to supplement its CAR. Nevertheless, HMB’s Tier I capital remains strongest amongst peers.

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. Apart from HMB, HBZ controls four fully owned subsidiaries – Habib European Bank, Habib Canadian Bank, HBZ Bank Limited (South Africa), and HBZ Services FC-LLC. At end-Dec10, the group’s equity stood at CHF 948mln (~US\$ 891mln) with group Tier-I in excess of 10%. 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 143 branches/sub-branches spread over 24 cities with high concentration in Karachi and Lahore.
- The CEO, Mr. Anjum Iqbal, is a senior banker and has over three decades of local and international banking experience while serving at various locations and senior management positions. A highly professional team of senior executives assists the Chief Executive. Mr. Mohamedali R. Habib, recently elevated to the position of Joint President in HBZ, continues to support the CEO as executive director at HMB.

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