



The Pakistan Credit Rating Agency Limited

# STANDARD CHARTERED BANK (PAKISTAN) LIMITED (SCBPL)

## ENTITY RATINGS REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-Term	AAA	AAA
Short-Term	A1+	A1+
PPTFC	AAA	AAA
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

## Assets:

- SCBPL witnessed a positive trend in advances portfolio, advances book proportion to total assets stood at (9MCY17: 27%, 9MCY16: 24%)
- The sectorial concentration of the advances book was dominated by (i) Textile 23% (CY15: 20%), followed by ii) Energy 13% (CY15: 11%), and Chemicals and Pharmaceuticals 10% (CY15: 11%)
- On the consumer side, personal loans and credit cards dominate constituting 70% (CY15: 65%)
- Top 20 exposure concentration though declined YoY to 45%, is still high vis-à-vis peers

## Funding

- The funding mix is largely tilted towards deposits side which has witnessed decent growth of 9% on a YoY basis
- The deposit base represents 87% of the bank's total liabilities at end-Sep17
- The bank's strong franchise value helps in maintaining one of the highest CASA ratio in the industry (9MCY17: 92%, CY16: 94%, 9MCY16: 93%)

## Credit Risk

- Bank in continuation to its prudent strategy maintained high loss coverage ratio similar to the previous year (end-Sep17: 97%)
- Due to stringent recovery efforts and increase in advances base, the infection ratio of the bank improved (9MCY17: 13%, 9MCY16: 16%)

## Market Risk

- The bank's investment book expanded by 5% during the period and comprises almost entirely of government securities

## Performance

- The bank witnessed a decline in its interest markup earned by 7% (9MCY17: PKR 20bln, 9MCY16: PKR 22bln), mainly owing to the declining interest rate environment, and maturity of high yielding PIBs.
- Rationalization in the cost of funds could not help maintain the spreads at last year's level, hence the bank witnessed a decline of 12% in its NIMR on YoY basis
- Non-interest income improved by 7% on a YoY basis positively contributing towards the overall revenue stream
- With the dip in NIMR on YoY basis coupled with higher provisioning expense the bank recorded 14% decline in profitability for the period ended 9MCY17

## Capital

- The bank's equity remains high in the mid-size banking universe, PKR 55bln at end-Sep17. CAR during the period stood at ~17%
- The bank has one privately placed, unsecured and subordinated TFC-IV of PKR 2,500mln, issued during Jun12, having a tenor of 10 years, profit payable at 6Mkibor+0.75bps and embedded call option, exercisable after five years

## Business Strategy

- SCBPL will remain focused in providing banking solutions to its specific niche of high net worth individuals and quality commercial & corporate clientele
- Exposure in selective sectors will drive future growth in advances, herein, an uptick in consumer book primarily automobile is earmarked as critical
- On the liabilities front, further rationalization in low cost deposits will be targeted in order to control the costs

## Profile

- SCBPL, incorporated in Pakistan in Jul06, is ultimately owned (99%) by Standard Chartered PLC and has a network of 97 branches at end-Sep17.
- The risk profile of the parent institution has improved since last update, as the quantum of impairment subsided and slight profits were booked in 2016

## Governance and Management

- The bank's seven-member BoD includes four representatives of SC Group including the CEO and three independent members
- Mr. Ian Bryden has been appointed as the Chairman of the board in place of outgoing chairman Mr. Sunil Kaushal
- Mr. Ian Bryden has previously served in Nepal and India (as Country CRO). He has done masters in law with 34 years of international banking experience

## RATING RATIONALE

The ratings reflect SCBPL's association with a financially sound and reputed international bank - Standard Chartered PLC. This is supplemented by SCBPL's strategic and operational integration into the parent as the bank continues to benefit from the technical resources and cumulative expertise developed at the group level. The risk profile of the parent institution has improved since last update, as the quantum of impairment has subsided and has rebounded into slight profitability in 2016. Further improvement is essential. The ratings incorporate the bank's dominant position in its target niche market (MNCs, established domestic Corporates & affluent retail clients) through a comprehensive product suite and significant digital capabilities complemented by its international franchise and its extensive presence in tier-I cities. The bank is increasing its focus on deployment of advances leading to enhanced interest income. The ratings factor in sound management quality, healthy spreads, efficient operating structure and ample liquidity of the bank. SCBPL's pre-dominantly low cost deposit base enabled the bank to achieve one of the best CASA mix in the industry, while distinguishing it in its peer universe it also facilitates core operating activities.

## KEY RATING DRIVERS

The ratings remain dependent on the bank's ability to maintain its presence in profitable segments, while remaining abreast of changing domestic operating environment. Meanwhile, maintaining spreads whilst not compromising on the asset quality is important for the bank.

## DEBT INSTRUMENT

SCBPL currently has one privately placed unsecured subordinated TFC outstanding - 4th Issue. The instrument (issued in Jun12) has a tenor of 10-years, with profit payable at a floating interest rate of 6-months KIBOR+0.75%. The issue contains a call option which is exercisable after the first five years (July17). The entire principal would be repaid in the tenth year (Jun22) in two equal semi-annual installments.

## 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.

**The Pakistan Credit Rating Agency Limited  
Standard Chartered Bank (Pakistan) Limited**

	<b>30-Sep-17</b> <b>9M</b>	<b>31-Dec-16</b> <b>Annual</b>	<b>31-Dec-15</b> <b>Annual</b>	<b>31-Dec-14</b> <b>Annual</b>	<i>PKR mln</i>
<b>BALANCE SHEET</b>					
<b>Earning Assets</b>					
Advances	134,732	111,758	104,283	126,944	
Debt Instruments	311	285	285	285	
Total Finances	135,043	112,043	104,568	127,229	
Investments	268,400	245,850	225,033	189,393	
Others	24,946	30,654	38,585	22,643	
	<b>428,389</b>	<b>388,547</b>	<b>368,187</b>	<b>339,266</b>	
<b>Non Earning Assets</b>					
Non-Earning Cash	31,976	35,574	22,166	10,033	
Net Non-Performing Finances	269	1,908	2,502	1,646	
Fixed Assets & Others	46,336	47,303	54,493	58,623	
	<b>78,581</b>	<b>84,785</b>	<b>79,161</b>	<b>70,302</b>	
<b>TOTAL ASSETS</b>	<b>506,970</b>	<b>473,332</b>	<b>447,348</b>	<b>409,568</b>	
<b>Interest Bearing Liabilities</b>					
Deposits	390,609	365,562	327,238	304,504	
Borrowings	22,698	16,901	38,401	19,745	
	<b>413,306</b>	<b>382,463</b>	<b>365,638</b>	<b>324,248</b>	
<b>Non Interest Bearing Liabilities</b>					
	34,533	29,586	19,759	24,605	
<b>TOTAL LIABILITIES</b>	<b>447,839</b>	<b>412,050</b>	<b>385,397</b>	<b>348,853</b>	
<b>EQUITY (including revaluation surplus)</b>	<b>59,131</b>	<b>61,282</b>	<b>61,950</b>	<b>60,715</b>	
<b>Total Liabilities &amp; Equity</b>	<b>506,970</b>	<b>473,332</b>	<b>447,348</b>	<b>409,568</b>	
<b>INCOME STATEMENT</b>					
	<b>30-Sep-17</b> <b>9M</b>	<b>31-Dec-16</b> <b>Annual</b>	<b>31-Dec-15</b> <b>Annual</b>	<b>31-Dec-14</b> <b>Annual</b>	
Interest / Mark up Earned	20,212	28,395	32,938	34,106	
Interest / Mark up Expensed	(7,060)	(9,010)	(10,630)	(13,243)	
<b>Net Interest / Markup revenue</b>	<b>13,152</b>	<b>19,385</b>	<b>22,308</b>	<b>20,863</b>	
Other Income	6,210	7,163	6,303	7,393	
<b>Total Revenue</b>	<b>19,362</b>	<b>26,548</b>	<b>28,611</b>	<b>28,256</b>	
Non-Interest / Non-Mark up Expensed	(8,505)	(12,344)	(12,417)	(12,560)	
Pre-provision operating profit	10,857	14,204	16,194	15,696	
Provisions	(294)	1,141	(853)	(466)	
Pre-tax profit	10,563	15,345	15,341	15,231	
Taxes	(4,243)	(5,727)	(6,053)	(5,506)	
<b>Net Income</b>	<b>6,320</b>	<b>9,618</b>	<b>9,288</b>	<b>9,725</b>	
<b>Ratio Analysis</b>					
	<b>30-Sep-17</b> <b>9M</b>	<b>31-Dec-16</b> <b>Annual</b>	<b>31-Dec-15</b> <b>Annual</b>	<b>31-Dec-14</b> <b>Annual</b>	
<b>Performance</b>					
ROE	15.0%	17.2%	17.0%	18.2%	
Cost-to-Total Net Revenue	44.0%	46.6%	42.9%	44.5%	
Provision Expense / Pre Provision Profit	-2.7%	8.0%	5.3%	3.0%	
<b>Capital Adequacy</b>					
Equity/Total Assets	10.9%	12.0%	12.3%	13.3%	
<b>Funding &amp; Liquidity</b>					
Liquid Assets / Deposits and Borrowings	76.7%	78.7%	70.0%	65.7%	
Advances / Deposits	34.6%	31.2%	32.6%	42.2%	
CASA deposits / Total Customer Deposits	92.2%	93.9%	92.5%	92.5%	
<b>Intermediation Efficiency</b>					
Asset Yield	13.1%	16.3%	18.7%	15.4%	
Cost of Funds	2.3%	2.4%	3.1%	4.1%	
Spread	4.1%	5.1%	6.2%	6.3%	
<b>Outreach</b>					
Branches	97	101	101	116	



## 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		SHORT TERM RATINGS		
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.		
<b>AA+</b>	<b>Very high credit quality.</b> Very low expectation of credit risk.			
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments.			
<b>AA-</b>	This capacity is not significantly vulnerable to foreseeable events.			
<b>A+</b>	<b>High credit quality.</b> Low expectation of credit risk.	<b>A1:</b> A strong capacity for timely repayment.		
<b>A</b>	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.			
<b>A-</b>				
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk.	<b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.		
<b>BBB</b>	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.			
<b>BBB-</b>				
<b>BB+</b>	<b>Moderate risk.</b> Possibility of credit risk developing.	<b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.		
<b>BB</b>	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>BB-</b>				
<b>B+</b>	<b>High credit risk.</b>	<b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.		
<b>B</b>	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.			
<b>B-</b>				
<b>CCC</b>	<b>Very high credit risk.</b> Substantial credit risk	<b>C:</b> An inadequate capacity to ensure timely repayment.		
<b>CC</b>	“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.			
<b>C</b>				
<b>D</b>	Obligations are currently in default.			
<b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.		<b>Rating Watch</b> 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.	<b>Suspension</b> 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.	<b>Withdrawn</b> 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 surveil the opinion due to lack of requisite information

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<b>Name of Issuer</b>	Standard Chartered Bank (Pakistan) Limited																															
<b>Sector</b>	Banking																															
<b>Type of Relationship</b>	Solicited																															
<b>Purpose of the Rating</b>	Independent Risk Assessment Regulatory Requirement																															
<b>Rating History</b>	<table border="1"><thead><tr><th>Dissemination Date</th><th>Long Term</th><th>Outlook</th><th>Action</th></tr></thead><tbody><tr><td>-</td><td>AAA</td><td>Stable</td><td>Maintain</td></tr><tr><td>19-Jun-17</td><td>AAA</td><td>Stable</td><td>Maintain</td></tr><tr><td>18-Jun-16</td><td>AAA</td><td>Stable</td><td>Maintain</td></tr><tr><td>19-Jun-15</td><td>AAA</td><td>Stable</td><td>Maintain</td></tr><tr><td>19-Jun-14</td><td>AAA</td><td>Stable</td><td>Maintain</td></tr></tbody></table>								Dissemination Date	Long Term	Outlook	Action	-	AAA	Stable	Maintain	19-Jun-17	AAA	Stable	Maintain	18-Jun-16	AAA	Stable	Maintain	19-Jun-15	AAA	Stable	Maintain	19-Jun-14	AAA	Stable	Maintain
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<b>Related Criteria and Research</b>																																
Rating Methodology	Bank Rating Methodology Banking Sector - Viewpoint   Jun-17																															
<b>Rating Analysts</b>	Muneeb Rashid <a href="mailto:muneeb.rashid@pacra.com">muneeb.rashid@pacra.com</a> (92-42-35869504)																															
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