



The Pakistan Credit Rating Agency Limited

## Rating Report

### Standard Chartered Bank (Pakistan) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Jun-2018	AAA	A1+	Stable	Maintain	-
29-Dec-2017	AAA	A1+	Stable	Maintain	-
19-Jun-2017	AAA	A1+	Stable	Maintain	-
18-Jun-2016	AAA	A1+	Stable	Maintain	-
19-Jun-2015	AAA	A1+	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

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 two years, as the quantum of impairment has subsided and has registered growth in profitability in 2017. 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 boost profitability, which has seen dilution. 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. The bank is focused towards enhancing yield, cost efficiency, increasing client revenue and growing retail asset base.

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.

#### Disclosure

<b>Name of Rated Entity</b>	Standard Chartered Bank (Pakistan) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation between long-term and short-term rating scale(Jun-17),Methodology   Criteria Modifiers(Jun-17),Methodology   Bank Rating(Jun-17)
<b>Related Research</b>	Sector Study   Commercial Bank(Jun-18)
<b>Rating Analysts</b>	Muneeb Rashid   muneeb.rashid@pacra.com   +92-42-35869504 Jhangeer Hanif   jhangeer@pacra.com   +92-42-35869504

STANDARD CHARTERED BANK PAKISTAN LIMITED (SCBPL)		INDUSTRY SNAPSHOT
<b>PROFILE</b>		<p>The banking sector has experienced highest growth in terms of advances in 2017 over the last decade. As a consequence, there is mounting pressure on capital adequacy ratio of the banks. The challenge is exacerbated as the internal generation of capital (profits) are witnessing a dip. Some relief on income side is expected with recent uptick in interest rates.</p>
<b>Incorporated</b>	2006	
<b>Profile</b>	<ul style="list-style-type: none"> <li>▪ SCBPL is a locally incorporated foreign bank</li> <li>▪ It is a mid-sized bank. SCBPL has a 3.1% share in customer deposits in its peer universe as at end-Dec17.</li> <li>▪ The bank operates with a network of 93 branches as at end-Mar18</li> </ul>	
<b>Legal Status</b>	Listed	
<b>Head Office</b>	Karachi	
<b>OWNERSHIP</b>		
<ul style="list-style-type: none"> <li>▪ SCBPL is ultimately owned (99%) by Standard Chartered PLC</li> <li>▪ The risk profile of the parent institution has continued to improve since 2016, as the quantum of impairment losses subsided; underlying profitability demonstrated tremendous growth</li> </ul>		
<b>GOVERNANCE</b>		
<ul style="list-style-type: none"> <li>▪ The bank's seven-member BoD includes four representatives of SC Group including the CEO and three independent members</li> <li>▪ Mr. Ian Bryden is the Chairman of the board. He has previously served in Nepal and India (as Country CRO). He has done masters in law with more than 35 years of international banking experience</li> </ul>		
<b>MANAGEMENT</b>		
<ul style="list-style-type: none"> <li>▪ Mr. Shazad Dada, the CEO of the bank, is a seasoned banker and a prominent capital markets professional, with close to three decades of diverse experience with renowned financial institutions in the United States and Pakistan</li> <li>▪ SCBPL operates along a matrix organizational structure whereby all departmental heads have dual reporting lines. Departmental heads report directly to the CEO along with a dotted reporting line to the regional heads based in Singapore and Dubai</li> </ul>		
<b>RISK MANAGEMENT</b>		
<ul style="list-style-type: none"> <li>▪ SCBPL witnessed a positive trend in advances portfolio (up by 18%), advances book proportion to total assets stood at (CY17: 31%, CY16: 28%)</li> <li>▪ The bank's ADR improved on YoY basis (CY17: 37%, CY16: 31%), however, SCBPL has the lowest ADR amongst peer group and it is below industry average of 50%</li> <li>▪ The segment wise breakup of the advances book largely remained intact in comparison to previous year with corporate (79%) followed by Consumer (14%) and SME/Commercial (3%)</li> <li>▪ Top 20 exposure concentration inched up slightly YoY to 46%, high vis-à-vis peers</li> <li>▪ Bank in continuation to its prudent strategy maintained high loss coverage ratio (Dec17: 100%, Dec16: 90%) and has completely provided for NPLs. Owing to recoveries and reclassification of accounts to performing; the infection ratio of the bank improved (CY17: 12%, CY16: 16%)</li> <li>▪ The bank's investment book expanded by 11% during the period and is dominated by T-Bills (98%)</li> </ul>		
<b>BUSINESS RISK</b>		
<ul style="list-style-type: none"> <li>▪ The bank witnessed a decline in its interest markup earned by 6% (CY17: PKR ~27bln, CY16: PKR ~28bln), as asset yield was suppressed owing to the low interest rate environment, maturity of high yielding PIBs and repricing of investment portfolio</li> <li>▪ Pressure on spreads resulted in decline of 11% in NIMR</li> <li>▪ Non-interest income improved by decent 14% on a YoY basis positively contributing towards the overall revenue stream. Capital gains evaporated during the year registering a YoY decline of 42%</li> <li>▪ Lower contribution from capital gains was offset by better performance of two segments (i) fee, commission and brokerage (up 32% YoY) and (ii) income from dealing in foreign currencies (up 33% YoY)</li> <li>▪ Operational efficiencies allowed the management to curtail operating expenses by 5%</li> <li>▪ Nevertheless, with higher provisioning expense as compared to reversal in previous year, and lower revenue base; the bank witnessed a dip in profitability by 14% (CY17: PKR 8.2bln, CY16: PKR 9.6bln)</li> <li>▪ SCBPL will remain focused in providing banking solutions to its specific niche of high net worth individuals and quality commercial &amp; corporate clientele. Going forward, the bank's focus is towards enhancing yield, cost efficiency, increasing client revenue and growing retail asset base</li> </ul>		
<b>CAPITAL &amp; FUNDING</b>		
<ul style="list-style-type: none"> <li>▪ The bank's strong franchise value helps in maintaining one of the highest CASA ratio in the industry (1QCY18: ~93%, CY17: 92%, CY16: 94%)</li> <li>▪ Top 20 depositor concentration of 16%, though inched up YoY, it is still comparable with peers and is considered good</li> <li>▪ The bank's equity remains high in the mid-size banking universe, PKR 57bln at end-Dec17. CAR during the period remained comfortable at ~19%</li> </ul>		



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<b>BALANCE SHEET</b>	<b>31-Mar-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
	<b>3M</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
<b>Earning Assets</b>				
Advances	147,239	137,693	111,758	104,283
Debt Instruments	272	285	285	285
Total Finances	147,511	137,978	112,043	104,568
Investments	260,314	272,488	245,850	225,033
Others	44,107	19,460	30,654	38,585
	<b>451,932</b>	<b>429,926</b>	<b>388,547</b>	<b>368,187</b>
<b>Non Earning Assets</b>				
Non-Earning Cash	30,914	24,472	35,574	22,166
Net Non-Performing Finances	(341)	(322)	1,908	2,502
Fixed Assets & Others	59,137	59,473	47,303	54,493
	<b>89,710</b>	<b>83,623</b>	<b>84,785</b>	<b>79,161</b>
<b>TOTAL ASSETS</b>	<b>541,642</b>	<b>513,549</b>	<b>473,332</b>	<b>447,348</b>
<b>Interest Bearing Liabilities</b>				
Deposits	406,760	377,576	365,562	327,238
Borrowings	22,400	26,030	16,901	38,401
	429,160	403,606	382,463	365,638
<b>Non Interest Bearing Liabilities</b>				
	50,679	47,006	29,586	19,759
<b>TOTAL LIABILITIES</b>	<b>479,839</b>	<b>450,612</b>	<b>412,050</b>	<b>385,397</b>
<b>EQUITY (including revaluation surplus)</b>	<b>61,802</b>	<b>62,937</b>	<b>61,282</b>	<b>61,950</b>
<b>Total Liabilities &amp; Equity</b>	<b>541,642</b>	<b>513,549</b>	<b>473,332</b>	<b>447,348</b>
<b>INCOME STATEMENT</b>	<b>31-Mar-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
	<b>3M</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
Interest / Mark up Earned	6,783	26,799	28,395	32,938
Interest / Mark up Expensed	(2,439)	(9,519)	(9,010)	(10,630)
<b>Net Interest / Markup revenue</b>	<b>4,344</b>	<b>17,280</b>	<b>19,385</b>	<b>22,308</b>
Other Income	2,436	8,200	7,163	6,303
<b>Total Revenue</b>	<b>6,780</b>	<b>25,480</b>	<b>26,548</b>	<b>28,611</b>
Non-Interest / Non-Mark up Expensed	(2,895)	(11,736)	(12,344)	(12,417)
Pre-provision operating profit	3,886	13,744	14,204	16,194
Provisions	313	(291)	1,141	(853)
Pre-tax profit	4,199	13,453	15,345	15,341
Taxes	(1,470)	(5,208)	(5,727)	(6,053)
<b>Net Income</b>	<b>2,729</b>	<b>8,245</b>	<b>9,618</b>	<b>9,288</b>
<b>Ratio Analysis</b>	<b>31-Mar-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
	<b>3M</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
<b>Performance</b>				
ROE	19.2%	14.4%	17.2%	17.0%
Cost-to-Total Net Revenue	42.4%	47.2%	46.6%	42.9%
Provision Expense / Pre Provision Profit	8.1%	-2.1%	8.0%	5.3%
<b>Capital Adequacy</b>				
Equity/Total Assets	10.4%	11.2%	12.0%	12.3%
<b>Funding &amp; Liquidity</b>				
Liquid Assets / Deposits and Borrowings	76.3%	77.2%	78.7%	70.0%
Advances / Deposits	36.2%	36.5%	31.2%	32.6%
CASA deposits / Total Customer Deposits	92.8%	92.1%	93.9%	92.5%
<b>Intermediation Efficiency</b>				
Asset Yield	11.5%	12.4%	16.3%	18.7%
Cost of Funds	2.3%	2.4%	2.4%	3.1%
Spread	3.8%	4.1%	5.1%	6.2%
<b>Outreach</b>				
Branches	93	93	101	101



## ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.			
<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>	
<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>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.  <b>C:</b> An inadequate capacity to ensure timely repayment.	
<b>AA+</b>	<b>Very high credit quality.</b> 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.		
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
<b>AA-</b>			
<b>A+</b>	<b>High credit quality.</b> 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.		
<b>A</b>			
<b>A-</b>			
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.		
<b>BBB</b>			
<b>BBB-</b>			
<b>BB+</b>	<b>Moderate risk.</b> 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>BB</b>			
<b>BB-</b>			
<b>B+</b>	<b>High credit risk.</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>B-</b>			
<b>CCC</b>	<b>Very high credit risk.</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>CC</b>			
<b>C</b>			
<b>D</b>	Obligations are currently in default.		
<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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	<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 or 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>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, a suspended 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, or e) the entity/issuer defaults.
<b>Disclaimer:</b> PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.			

### **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

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- (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)
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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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