



The Pakistan Credit Rating Agency Limited

## Rating Report

### Standard Chartered Bank (Pakistan) Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	AAA	A1+	Stable	Maintain	-
25-Jun-2022	AAA	A1+	Stable	Maintain	-
25-Jun-2021	AAA	A1+	Stable	Maintain	-
25-Jun-2020	AAA	A1+	Stable	Maintain	-
25-Dec-2019	AAA	A1+	Stable	Maintain	-
25-Jun-2019	AAA	A1+	Stable	Maintain	-
24-Dec-2018	AAA	A1+	Stable	Maintain	-
20-Jun-2018	AAA	A1+	Stable	Maintain	-
29-Dec-2017	AAA	A1+	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect the Standard Chartered Bank (Pakistan) Limited “SCBPL” 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. Bank's market share in customer deposits has inched up by 3.2% as of end-Dec22 (end-Dec21: 3.0%). SCBPL's predominantly low-cost deposit base has enabled the bank to achieve one of the best CASA mix in the industry (CY22: 95.5%, CY21: 92.1%) while distinguishing it from its peer universe it also facilitates core operating activities. The ratings incorporate the Bank's dominant position in its targeted 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 strategy is to focus on retail business and digitization along with traditional banking. The Bank is focused on enhancing yield, cost efficiency, increasing client revenue, and growing customer assets. The bank's net mark-up income recorded double-digit growth, during CY22 and 1QCY23, owing to a record rise in key policy rates during the year. The trend is expected to sustain, given the high-interest rate environment prevailing at the moment. The advances of the Bank witnessed a decline in CY22 and ADR clocked at 30% (CY21: 37.4%). The rating factor is sound management quality, efficient spreads, efficient operating structure, and ample liquidity of the Bank. The risk absorption capacity of the Bank, measured in terms of CAR, is robust (18.7%). The banking sector continued to flourish with high profitability. Going forward, the macroeconomic environment is beset with myriad challenges due to heightened interest rates, tightening of demand, rupee depreciation, and higher infection. This has repercussions for the entire system including banking.

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   Financial Institution Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Commercial Bank(Jun-23)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504



## Profile

**Structure** Standard Chartered Bank (Pakistan) Limited was incorporated in 2006 and listed on Pakistan Stock Exchange Limited (PSX).

**Background** SCBPL is the oldest and largest international Bank in Pakistan. It is also the first international Bank to be awarded an Islamic banking license and initiated its Islamic banking operations in 2004 in Pakistan.

**Operations** The bank serves various market segments through its 40-branch network, focusing on quality. Consumer, Private, and Business Banking (CPBB) offers credit cards, personal loans, mortgage loans, wealth management solutions, and business banking products. In Corporate, Commercial, and Institutional Banking (CCIB), the bank provides lending activities, cash management, trade finance, security services, treasury management services, and corporate finance and advisory services.

## Ownership

**Ownership Structure** SCBPL is ultimately owned (98.99%) by Standard Chartered PLC. The remaining stake in the Bank is held by the general public.

**Stability** Standard Chartered Group has a history of over 170 years in banking and operates through a network of more than 653 branches and outlets in more than 57 markets.

**Business Acumen** Standard Chartered (PLC) credit ratings as of 6th July 2022 were A+ with a stable outlook (Fitch), and A+ with a stable outlook (S&P) as at 25th July 2022, and A3 with a stable outlook (Moody's), and as of 14th November 2022.

**Financial Strength** Standard Chartered PLC, incorporated in the UK, is listed on the London Stock Exchange and Hong Kong Stock Exchange along with Bombay and National Stock Exchanges in India and has total assets of US\$ 820bln at end-Dec22 (end-Dec21: US\$ 828bln).

## Governance

**Board Structure** SCBPL's seven-member BoD comprises qualified and experienced professionals. The board comprises four members of the Standard Chartered (SC) Group, including SCBPL's CEO. Out of the remaining members of the board, three members are non-executive directors

**Members' Profile** The members carry extensive experience in financial services and varied backgrounds remain crucial in providing key insights and valuable guidance to the company's management. Mr. Ian Bryden, the chairman of the board, has previously served in Nepal and India (as Country CRO).

**Board Effectiveness** The Board has four Committees: Audit, Human Resources, Remuneration, Risk, and Information Technology. These Committees have defined scopes of work and reporting procedures, and they fulfill their duties as per their terms of reference. The Board held six meetings during the year.

**Financial Transparency** The company's external auditors, EY Ford Rhodes, Chartered Accountants, issued an unqualified audit opinion about the annual financial statement for CY22. Furthermore, the Board has set up a practical internal audit function that reports independently to the Audit Committee regularly on compliance with critical policies and procedures and recommends amendments to these policies in line with the industry's best practices.

## Management

**Organizational Structure** SCBPL operates through a well-defined organizational structure with fourteen different departments. The Bank operates along a matrix organizational structure whereby all departmental heads report to the CEO along with a reporting line to the regional heads based in Singapore and Dubai. The regional heads in turn report to the Global head based in London.

**Management Team** SCBPL's senior management team comprises experienced bankers having national and international exposure. Mr. Rehan Shaikh has over 35 years of progressively senior management and diversified experience in banking including the areas of Corporate Relationship Management, Risk Management, Remedial Management, International Trade Finance, and Branch Management.

**Effectiveness** The bank's business is overseen and managed by the country management team (CMT), which consists of the CEO, CFO, COO, and CCRO and leaders from different business units, products, and support functions. The CMT is accountable for supervising and controlling the bank's operations.

**MIS** SCBPL has developed Internal Controls over Financial Reporting (ICFR) / COSO as per the guidelines of SBP, with the support of external consultants.

**Risk Management Framework** Standard Chartered PLC's Enterprise Risk Management Framework (ERMF) provides a group-wide approach to risk management and controls. It sets principles and standards for risk management across the bank's branches and subsidiaries. It includes a healthy risk culture, strategic risk management aligned with the bank's framework and risk appetite, management of ten principal risks through Risk Type Frameworks, annual review of risk appetite, and defined roles and responsibilities for effective internal control.

## Business Risk

**Industry Dynamics** The country's economy faces challenges like political instability, high-interest rates, and inflation affecting all sectors. The GDP growth rate was 1.69% in 9MFY23 and 4.71% in FY22. The banking sector remains profitable, with assets growing by 18.5% YoY, and investments surging by 25% YoY to PKR 18.0 trillion. Gross Advances increased by 16% to PKR 12.6 trillion, and NPLs rose to PKR 924 billion.

**Relative Position** SCBPL, a medium-sized bank, has witnessed an increase of 14.9% in its customer deposits against the sector's growth of 14.0% while almost maintaining its system share at 3.2% during CY22 (CY21: 3.1%).

**Revenues** During CY22, markup earned witnessed a phenomenal rise to stand at PKR 90.4bln (CY21: PKR 46.8bln). Attributable to a significant increase in markup on investments to PKR 59.6bln (CY21: PKR 27.7bln) and markup on advances to PKR 30.7bln (CY21: PKR 19.0bln) primarily due to the increase in key policy rates during the year.

**Performance** Non-interest income witnessed significant growth of 62.2% on a YoY basis in CY22. This growth in non-core income is attributable to a hefty increase in foreign exchange income. However, Operating expenses increased by 12.3% YoY on account of an increase in property expenses. During CY22, the profit before tax of the Bank inched up by 102% and was recorded at PKR 50.12bln (CY21: PKR24.76bln). The increase in profit was due to a substantial increase in the overall income of the bank from PKR 37.4bln in CY21 to PKR 62.6bln in CY22. The Bank witnessed an increase in profitability by 44.5% to PKR 19.8bln (CY21: PKR 13.7bln).

**Sustainability** SCBPL aims to deliver revenue growth while maintaining a prudent risk approach and managing cost efficiency in a high inflationary environment.

## Financial Risk

**Credit Risk** Net advances of the Bank constitute 23% of the total asset, declined by marginal figures of 8% YoY (CY22: PKR 215.8bln, CY21: PKR 234.6bln). SCBPL's sectoral concentration in terms of its top five sectors (as a % of Advances) has increased on a YoY. The individual sector dominated with an exposure of 18% of total advances.

**Market Risk** At the end of Dec-22, the bank's investment book represented 51.5% (CY21: 53.7%) of the total assets. Government securities continue to dominate the investment portfolio representing 100% share (CY21: 100%) - PIB (31.9%), T-bills (60%), and 8% are held in GoP Ijarah Sukuk and Naya Pakistan certificates. This reflects the risk-averse appetite of the bank

**Liquidity And Funding** The composition of deposits at the end of CY22 was led by Individuals (53%) and followed by the private sector (38.9%), followed by non-resident (banking and individual) companies (7%). Significant increase in advances as against deposits allowed the bank to record ADR on a YoY basis of 30.0% (CY21: 37.4%).

**Capitalization** SCBPL's equity remains high in the mid-size banking universe. It remained strong at PKR 87.5bln in CY22 (CY21: PKR 79.6bln). SCBPL's CAR during the period decreased to 18.7% (CY21: 16.9%) which is well above the regulatory requirement of 11.5%.



PKR mln

Standard Chartered Bank Pakistan Ltd  
Listed Public Limited

Mar-23	Dec-22	Dec-21	Dec-20
3M	12M	12M	12M

## A BALANCE SHEET

1 Total Finances - net	228,931	215,833	234,748	177,544
2 Investments	373,297	477,732	450,583	349,243
3 Other Earning Assets	159,789	65,598	25,967	83,310
4 Non-Earning Assets	190,318	167,750	128,703	110,934
5 Non-Performing Finances-net	(698)	375	(576)	874
<b>Total Assets</b>	<b>951,638</b>	<b>927,289</b>	<b>839,426</b>	<b>721,905</b>
6 Deposits	728,756	718,450	626,774	556,506
7 Borrowings	27,791	28,064	35,029	23,293
8 Other Liabilities (Non-Interest Bearing)	108,711	93,254	98,017	60,428
<b>Total Liabilities</b>	<b>865,258</b>	<b>839,768</b>	<b>759,820</b>	<b>640,227</b>
<b>Equity</b>	<b>86,380</b>	<b>87,521</b>	<b>79,605</b>	<b>81,678</b>

## B INCOME STATEMENT

1 Mark Up Earned	32,792	90,430	46,852	52,222
2 Mark Up Expensed	(13,067)	(45,828)	(20,585)	(24,082)
3 Non Mark Up Income	702	18,048	11,126	12,800
<b>Total Income</b>	<b>20,428</b>	<b>62,649</b>	<b>37,393</b>	<b>40,940</b>
4 Non-Mark Up Expenses	(4,083)	(13,845)	(12,137)	(12,383)
5 Provisions/Write offs/Reversals	(196)	1,319	(495)	(4,941)
<b>Pre-Tax Profit</b>	<b>16,148</b>	<b>50,123</b>	<b>24,762</b>	<b>23,617</b>
6 Taxes	(6,958)	(30,279)	(11,034)	(10,483)
<b>Profit After Tax</b>	<b>9,191</b>	<b>19,844</b>	<b>13,728</b>	<b>13,133</b>

## C RATIO ANALYSIS

### 1 Performance

Net Mark Up Income / Avg. Assets	8.4%	5.0%	3.4%	4.2%
Non-Mark Up Expenses / Total Income	20.0%	22.1%	32.5%	30.2%
ROE	42.3%	23.7%	17.0%	17.0%

### 2 Capital Adequacy

Equity / Total Assets (D+E+F)	9.1%	9.4%	9.5%	11.3%
Capital Adequacy Ratio	16.8%	18.7%	16.9%	19.1%

### 3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	61.5%	74.4%	78.6%	71.6%
(Advances + Net Non-Performing Advances) / Deposits	31.3%	30.1%	37.4%	32.0%
CA Deposits / Deposits	55.0%	45.7%	41.7%	43.3%
SA Deposits / Deposits	43.1%	49.8%	50.4%	49.2%

### 4 Credit Risk

Non-Performing Advances / Gross Advances	8.6%	9.0%	8.3%	11.4%
Non-Performing Finances-net / Equity	-0.8%	0.4%	-0.7%	1.1%

### Credit Rating

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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 and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<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.
BB-	
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-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk "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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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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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- (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).
- (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)
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- (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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