



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
24-Dec-2018	AAA	A1+	Stable	Maintain	-
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	-

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 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 to boost profitability. 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

Name of Rated Entity	Standard Chartered Bank (Pakistan) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Financial Institution(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Commercial Bank(Jun-18)
Rating Analysts	Muhammad Noor ul Haq muhammad.noorulhaq@pacra.com +92-42-35869504



Profile

Structure Standard Chartered Bank (Pakistan) Limited (hereinafter referred as “SCBPL” or “the Bank”) 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 Islamic banking license and the first to open an Islamic banking branch. SCBPL previously had three subsidiaries.
Operations The Bank is mainly engaged in Corporate, Commercial and Retail banking activities. The bank intends to accelerate digital banking initiatives in the domestic market with its group strategy. The Bank has a network of 80 branches at end-Sep18 (CY17: 93) in Pakistan.

Ownership

Ownership Structure SCBPL is ultimately owned (98.99%) by Standard Chartered Bank PLC. The remaining stake in the bank is held by the general public.
Stability Standard Chartered Group has a history of over 150 years in banking and operates through a network of more than 1,000 branches and outlets in more than 60 markets. Internal successors were highlighted in addition to earmarking key potential external resources to ensure a robust pipeline across all levels at the Bank.
Business Acumen Standard Chartered PLC is rated (S&P: BBB+, Moody's: A2 and Fitch A) at end-Sep18. Fitch has revised the rating from A+ to A due to reduction in Qualifying Junior Debt (QJD) buffer (8%); improvement in the same is considered critical. Standard Chartered PLC maintains a substantial presence in the country's financial sector and a strong foothold in the telecommunication sector.
Financial Strength Standard Chartered PLC, incorporated in 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\$685bln at end-Sep18 (end-Sep17: US\$677bln).

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. The remaining members of the board are independent directors.
Members' Profile The member's 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). He has done masters in law with 34 years of international banking experience.
Board Effectiveness The Bank has a process in place to evaluate and enhance the overall effectiveness of the BoD, its Committees, and individual directors on annual basis. During the year, six board meetings were held. Overall attendance of board members in these meetings was good.
Financial Transparency The Audit Committee comprises three members, all of whom are non-executive directors while two of them are independent directors including the chairman. This ensures effective, transparent and independent oversight is maintained. The bank's auditors, KPMG Taseer Hadi & Co., have expressed an unqualified opinion on the bank's financial statements for CY17.

Management

Organizational Structure The bank operates through a well-defined organizational structure with nineteen different departments. The bank operates along a matrix organizational structure whereby all departmental heads report directly to the CEO along with a dotted reporting line to the regional heads based in Singapore and Dubai. The regional heads in turn report to the group head based in London.
Management Team 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. He has also worked at the Deutsche Bank Securities Inc. in New York for over 15 years in various capacities.
Effectiveness A seventeen-member Executive Committee (EXCO), comprising of the CEO, CFO, CIO, CCRO and heads of various business units, products, and support functions are responsible for the supervision and control of the bank's business.
MIS SCBPL has developed Internal Controls over Financial Reporting (ICFR) / COSO as per guidelines of SBP, with the support of external consultants. The Standard Chartered Group, through a well-coordinated program, has made substantial progress towards the implementation of Basel III requirements.
Risk Management Framework RMF of Standard Chartered PLC provides a group-wide approach to risk management and the control framework within which risks are managed and risk-return trade-offs are made. The overall review of the risk management framework is entrusted to two risk committees namely the Group Risk Committee (GRC) and the Group Asset & Liability Committee (GALCO) to ensure that the risk identification and measurement capabilities are objective, consistent and compliant with applicable regulations, and that risk control and risk origination decisions are properly informed.

Business Risk

Industry Dynamics The banking industry witnessed significant expansion in the loan book. Last year and YTD (2018) both witnessed huge deployments. This is expected to slow down. New projects require gestation period and additionally crowding-out effect may take place. Rising interest rates mean profitability of the sector would take support. Yet NPLs, as a result, may also transpire. CAR is reaching the requirement at 11.9% by December 2018. This will create a challenge for some of the players.
Relative Position SCBPL, a medium-sized bank, has witnessed a slight increase of 9% in its deposits during 9MCY18. Advances have increased to 8% but the system share remains unchanged during the period end Sep-18 at 2% (CY17: 2%).
Revenues The bank witnessed an increase in profitability by 24% (9MCY18: PKR 7.8bln, 9MCY17: PKR 6.3bln) and an increase in its interest markup earned by 7.6% (9MCY18: PKR ~22bln, 9MCY17: PKR ~20bln) as well. The cost to total net revenue is also declined from 44% to 42% YoY basis during 9MCY18.
Performance During 9MCY18, the bank's investment book decreased by ~4% representing 49% (CY17: 53%; CY16: 52%) of the total assets. Fee, commission brokerage expenses decreased by 10% on a YoY basis. There is a slight increase of 1% in non-interest markup expense.
Sustainability In the medium term, the management intends to remain focused in providing banking solutions to its specific niche of high net worth individuals and good Corporate and Commercial clientele. Going forward, the bank's focus is towards enhancing yield, cost efficiency, increasing client revenue and growing retail asset base.

Financial Risk

Credit Risk The procedures for management of credit risk are set in line with the Standard Chartered Group's guidelines and are determined jointly by the risk function and businesses under the supervision of the Board. An increase in advances as against deposits allowed the bank to record better ADR on a YoY basis (CY17: 37%, CY16: 31%). The segment-wise breakup of the advances book largely remained intact in comparison to the previous year with corporate (79%), Consumer (14%) and SME/Commercial (3%).
Market Risk The management of market risk remains the responsibility of market risk function which is independent of the Treasury with direct reporting to CRO. Government securities continue to dominate the investment portfolio representing 98% share (CY16: 96%) - PIB's (0%) and T-bills (98%). The remaining 2% is held in GoP Ijarah Sukuk and listed equities. In terms of contribution of different sectors in total delinquencies, textile (CY17: 33%, CY16: 29%) and telecommunication (CY17: 14%, CY16: 12%) sectors continue to remain the major contributors in total NPLs.
Liquidity And Funding The bank's strong liquidity profile emanates from SCBPL's enhanced allocation towards government securities as reflected in its Liquid assets to Deposits and borrowing ratio (9MCY18: 75%, CY17: 77%). SCBPL's high proportion of CASA deposits (9MCY18: 93%) provides a stable core funding base for the bank. Investments in government securities may be utilized as collateral for overnight repo transactions and borrowings which provides support to SCBPL's liquidity profile.
Capitalization SCBPL's equity remains high in the mid-size banking universe. It remained static at PKR ~57bln in CY17 (CY16: PKR 57bln). SCBPL's CAR during the period slightly declined 9MCY18 16.9% (CY17: 19.3%, CY16: 20.3%).



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

BALANCE SHEET	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
	9M	Annual	Annual	Annual
Earning Assets				
Advances	149,240	137,693	111,758	104,283
Debt Instruments	278	285	285	285
Total Finances	149,518	137,978	112,043	104,568
Investments	265,696	272,488	245,850	225,033
Others	39,113	19,460	30,654	38,585
	454,326	429,926	388,547	368,187
Non Earning Assets				
Non-Earning Cash	29,870	24,472	35,574	22,166
Net Non-Performing Finances	(478)	(322)	1,908	2,502
Fixed Assets & Others	62,449	59,473	47,303	54,493
	91,841	83,623	84,785	79,161
TOTAL ASSETS	546,167	513,549	473,332	447,348
Interest Bearing Liabilities				
Deposits	410,827	377,576	365,562	327,238
Borrowings	20,240	26,030	16,901	38,401
	431,066	403,606	382,463	365,638
Non Interest Bearing Liabilities				
	51,276	47,006	29,586	19,759
TOTAL LIABILITIES	482,342	450,612	412,050	385,397
EQUITY (including revaluation surplus)	63,825	62,937	61,282	61,950
Total Liabilities & Equity	546,167	513,549	473,332	447,348
INCOME STATEMENT	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
	9M	Annual	Annual	Annual
Interest / Mark up Earned	21,744	26,799	28,395	32,938
Interest / Mark up Expensed	(7,794)	(9,519)	(9,010)	(10,630)
Net Interest / Markup revenue	13,950	17,280	19,385	22,308
Other Income	6,373	8,200	7,163	6,303
Total Revenue	20,323	25,480	26,548	28,611
Non-Interest / Non-Mark up Expensed	(8,632)	(11,736)	(12,344)	(12,417)
Pre-provision operating profit	11,691	13,744	14,204	16,194
Provisions	955	(291)	1,141	(853)
Pre-tax profit	12,645	13,453	15,345	15,341
Taxes	(4,872)	(5,208)	(5,727)	(6,053)
Net Income	7,774	8,245	9,618	9,288
Ratio Analysis	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
	9M	Annual	Annual	Annual
Performance				
ROE	17.9%	14.4%	17.2%	17.0%
Cost-to-Total Net Revenue	41.5%	47.2%	46.6%	42.9%
Provision Expense / Pre Provision Profit	8.2%	-2.1%	8.0%	5.3%
Capital Adequacy				
Equity/Total Assets	10.7%	11.2%	12.0%	12.3%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	75.4%	77.2%	78.7%	70.0%
Advances / Deposits	36.3%	36.5%	31.2%	32.6%
CASA deposits / Total Customer Deposits	92.7%	92.1%	93.9%	92.5%
Intermediation Efficiency				
Asset Yield	10.7%	12.4%	16.3%	18.7%
Cost of Funds	2.5%	2.4%	2.4%	3.1%
Spread	4.1%	4.1%	5.1%	6.2%
Outreach				
Branches	80	93	101	101

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. 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.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. 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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. 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.		
D	Obligations are currently in default.		



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, 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.

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 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.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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

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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