



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
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	-
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 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 has depicted stronger profitability in CY19. The bank is increasing its focus on deployment of advances to boost profitability, as reflected by its enhanced ADR ~46.8% in CY19 (CY18: 39.9%), which has narrowed the gap to industry average (51.5%). 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 has 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 risk absorption capacity of the bank, measured in terms of CAR, is robust (16.94%). Covid-19 has posed challenges to the banking sector, as almost all segments of the economy, worldwide and domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed.

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	PACRA_Methodology_FI(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Commercial Bank(Jun-20)
Rating Analysts	Sohail Ahmed sohail.ahmed@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 Islamic banking license and initiated its Islamic banking operations in 2004 in Pakistan.

Operations The Bank is mainly engaged in Corporate, Commercial and Retail banking activities. The Bank intends to continue its digital banking initiatives in the domestic market. The Bank has a network of 61 branches at end-Dec19 (CY18: 77) in Pakistan.

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 160+ years in banking and operates through a network of branches and outlets in more than 60 markets. Internal successors are 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+) with stable outlook as at August 7, 2019, (Fitch: A) with negative outlook at April 17, 2020 and (Moody's: A2) with stable outlook as at May 29, 2020.

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\$ 720.4bln at end-Dec19 (end-Dec18: US\$ 689bln).

Governance

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

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 Anderson Bryden, the Chairman of the Board, is the Regional CRO for Africa and Middle East and has previously served as CRO, South Asia, and Country CRO, India. He has done master's in law and has over 36 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 an annual basis. During CY19, six board meetings were held. Overall attendance of board members in these meetings was full.

Financial Transparency The Audit Committee comprises three members, two non-executive directors one independent director who is also its 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 the year ended Dec19.

Management

Organizational Structure The Bank operates through a well-defined organizational structure with sixteen 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 Mr. Shazad Dada is the CEO and member of the BoD of SCBPL. He is a seasoned banker and a prominent capital markets professional, with over 25 years of diverse experience with renowned financial institutions in the USA and Pakistan. Prior to joining Standard Chartered, he was the CEO and MD of Barclays Pakistan.

Effectiveness A sixteen-member Country Management Team (CMT), comprising of the CEO, CFO, COO, 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 The Bank has put in place an Enterprise Risk Management Framework (ERMF), to implement the guidelines and regulations, related to Risk Management. This framework sets out the principles and standards for risk management across the Bank. The ultimate responsibility for the oversight of risk management function rests with the Bank's Board of Directors. Acting within the authority delegated by the Board, the CMT has appointed the Executive Risk Committee ("ERC") and the Asset and Liability Committee ("ALCO"), for effective Risk Management.

Business Risk

Industry Dynamics As a result of general economic slowdown most indicators of the banking sector reflected mixed trend. Deposits of the banking sector stood at (CY19: PKR 15,953bln; CY18: PKR 14,254bln), showing a growth of ~12% as compared to 9.5% growth in CY18. Deployment of funds was largely skewed towards investments and particularly towards government instruments due to favorable interest rate dynamics (CY19: PKR 8,939bln; CY18: PKR 7,914bln). Meanwhile, advances witnessed a slowdown owing to subdued demand, cautious lending approach and monetary tightening. This was only a growth of 3.7% as compared to expansion of 22.2% in CY18. Asset quality saw deterioration – increased NPLs (CY19: PKR 761bln; CY18: PKR 680bln). The profitability of the banking sector improved due to an increase in Net Interest Income, which translated positively in other profitability indicators. The overall risk profile of the banking sector remained satisfactory.

Relative Position SCBPL, a medium-sized bank, has witnessed an increase of 8.7% in its customer deposits as against the sector's growth of 11.2% while almost maintaining its system share at 3.02% during CY19 (CY18: 3.09%). During CY19, the Bank is at the 3rd position from the top in terms of profitability.

Revenues During CY19, Overall revenue growth was 37%, with positive contributions from transaction banking, corporate finance, treasury markets and retail products. During CY19, the Bank reported an increase of PKR 21bln (67%) in gross markup income on YoY basis and non-markup income of the Bank was reported at PKR 10.89bln, increased by 12.4%.

Performance During CY19, profit before tax of the Bank increased by 47% over the last year and was reported at PKR 27.2bln (CY18: PKR 18.45bln). This is highest profit that Bank has earned since its incorporation. The Bank's operating expenses continue to be well managed through operational efficiencies and disciplined spending with just an increase of 2% from last year.

Sustainability The Bank intends to focus in providing superior banking solutions to its individual clients and good Corporate / Commercial clientele. Going forward, the Bank continue to re-engineer growth with focus on income whilst keeping a strong monitoring on risk management and cost efficiency.

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. At end-Dec19 an increase in advances as against deposits allowed the Bank to record better ADR of 46.8% (CY18: 39.9%). The Bank has seen an increase of PKR 335mln in its NPL book, however increase in advances brought down the infection ratio to 7.5% (CY18: 9.3%) while the coverage ratio was reported at 96.9%.

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. The investment portfolio showed decline of 10.6% to PKR 248.76bln during CY19 (CY18: PKR 278.46bln). The bank's investment portfolio constitutes 40% of total asset base and government securities continue to dominate the overall investment book (99.9%).

Liquidity And Funding The bank's strong liquidity profile emanates from SCBPL's enhanced allocation towards Govt. securities as reflected in its Liquid Assets to Deposits and Borrowing ratio (CY19: ~64.5% CY18: ~73.8%, CY17: ~76.2%). SCBPL's high proportion of CA & SA deposits (CY19: ~37.8% & 47% respectively) provides a stable core funding base for the Bank.

Capitalization SCBPL's equity remains high in the mid-size banking universe. It remained strong at PKR ~73bln in CY19 (CY18: PKR 67bln). SCBPL's CAR on Dec19 was 16.94% (Dec18: 19.1%), which is well above the regulatory requirement of 12.5%.



PKR mln

Standard Chartered Bank (Pakistan) Limited
Listed Public Limited

Dec-19	Dec-18	Dec-17
12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	218,219	170,650	138,779
2 Investments	248,761	278,461	271,666
3 Other Earning Assets	33,933	22,225	19,460
4 Non-Earning Assets	118,787	105,246	90,249
5 Non-Performing Finances-net	271	(501)	(322)
Total Assets	619,971	576,081	519,832
6 Deposits	465,629	424,899	377,576
7 Borrowings	20,257	24,024	26,030
8 Other Liabilities (Non-Interest Bearing)	61,168	59,920	53,290
Total Liabilities	547,054	508,843	456,895
Equity	72,917	67,238	62,937

B INCOME STATEMENT

1 Mark Up Earned	52,240	31,207	26,799
2 Mark Up Expensed	(24,054)	(12,376)	(10,301)
3 Non Mark Up Income	10,890	9,688	8,982
Total Income	39,076	28,518	25,480
4 Non-Mark Up Expenses	(11,894)	(11,290)	(11,743)
5 Provisions/Write offs/Reversals	17	1,218	(284)
Pre-Tax Profit	27,199	18,447	13,453
6 Taxes	(11,182)	(7,207)	(5,208)
Profit After Tax	16,017	11,239	8,245

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	4.7%	3.4%	3.3%
Non-Mark Up Expenses / Total Income	30.4%	39.6%	46.1%
ROE	22.9%	17.3%	13.3%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	11.8%	11.7%	12.1%
Capital Adequacy Ratio	16.9%	19.1%	19.3%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	64.5%	73.8%	76.2%
(Advances + Net Non-Performing Advances) / Deposits	46.8%	39.9%	36.5%
CA Deposits / Deposits	37.8%	40.8%	40.9%
SA Deposits / Deposits	47.0%	45.6%	49.1%

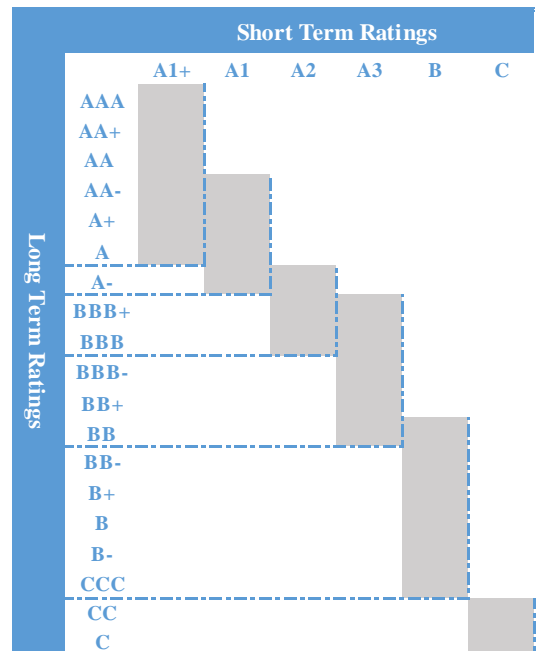
4 Credit Risk

Non-Performing Advances / Gross Advances	7.5%	9.3%	12.5%
Non-Performing Finances-net / Equity	0.4%	-0.7%	-0.5%

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)

Independence & Conflict of interest

- (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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