The Pakistan Credit Rating Agency Limited

Rating Report

Standard Chartered Bank (Pakistan) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
19-Jun-2017	AAA	A1+	Stable	Maintain	-
18-Jun-2016	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 stood at 3.1% as of end-Dec20 (end-Dec19: 3.0%). SCBPL's pre-dominantly low-cost deposit base has enabled the Bank to achieve one of the best CASA mix in the industry (CY20: 92.5%, CY19: 93.1%) 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 remained largely the same while the non-mark-up income enhanced YoY. Higher provisioning expense was recorded resulting in declined YoY net profitability. The advances of the Bank also witnessed attrition in CY20 and ADR clocked in at 32% (CY19: 46.8%). The rating factor is sound management quality, healthy spreads, efficient operating structure, and ample liquidity of the Bank. The risk absorption capacity of the Bank, measured in terms of CAR, is robust (19.1%). COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures are taken by the regulators and other concerning bodies have mitigated the potential damages anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as waves/variants of the pandemic continue to emerge.

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 | FI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Commercial Bank(Jun-20)
Rating Analysts	Muhammad Fahad Iqbal | fahad.iqbal@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 branch - SCBPL previously had three subsidiaries.

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, through an approach, focused on quality, serves a wide range of market segments throughout its 49-branch network (Mar-21).

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. Mr. Rehan Sheikh has been appointed as CEO in place of Mr. Shazad Dada who left the Bank on 1st July 2020.

Stability Standard Chartered Group has a history of over 150 years in banking and operates through a network of more than 776 branches and outlets in more than 59 markets.

Business Acumen Standard Chartered (PLC) credit ratings as of 17th January 2021 were BBB+ with a stable outlook (S&P), A2 with a stable outlook (Moody's), and as of 08th December 2020, and A with a negative outlook (Fitch) as at 15th October 2020. Having deep roots in rapidly developing Asian, African, and Middle Eastern markets to seek out opportunities at every turn with its strong business expertise.

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$ 789bln at end-Dec20 (end-Dec19: US$ 720bln).

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 or 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). He has done Masters in Law with 35 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 the year, six board meetings were held. Attendance of board members in these meetings remained satisfactory.

Financial Transparency The Bank's auditors, EY Ford Rhodes, Chartered Accountants, have expressed an unqualified opinion on the Bank's financial statements for the year ended Dec-20.

Management

Organizational Structure The Bank operates through a well-defined organizational structure with fourteen different departments. The Bank operates along with 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 Sheikh 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. Consistent track record of identifying opportunities, building optimal businesses, and developing high-performance teams. Demonstrated ability to operate effectively in multicultural environments, build and motivate teams to achieve business goals.

Effectiveness A fifteen-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. The CMT also supervises the activities of various sub-committees, which are: (i) Data Governance Committee, (ii) Asset and Liability Committee, and (iii) Various Risk Committees.

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. Bank has also implemented Basel III.

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.

Business Risk

Industry Dynamics The indicators of the banking sector reflected mixed trend where economy is recovering from the effects of the COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to the COVID-19 outbreak, the banking sector managed to grow at a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid the COVID-19 pandemic outbreak. The policy measures rolled out by the SBP enabled the sector to enhance profitability, improve resilience and limit credit risk. With the completion of the deferment period allowed, the aftermath is yet to be comprehended by the industry.

Relative Position SCBPL, a medium-sized bank, has witnessed an increase of 20.6% in its customer deposits against the sector's growth of 11.2% while almost maintaining its system share at 3.1% during CY20 (CY19: 3.02%).

Revenues The bank's spread in CY20 observed a slight decline though the trend is in line with the industry, 4.9% (CY19: 5.6%). The cost of funds for the year also witnessed attrition. During CY20, the bank witnessed a slight decrease in its interest markup earned by 0.03% (CY20: PKR 52.22bln, CY18: PKR 52.24bln). The decreasing trend continues and the mark-up income decreased by 34.2% in 1QCY21 and clocked in at PKR 10.3bln (1QCY20: PKR 15.8bln).

Performance During CY20, profit before tax of the Bank decreased by 13.1% over the last year and was reported at PKR 23.6bln (CY19: PKR 27.9bln). The decrease in profit is due to a higher provision of PKR 4.7bln (CY19: PKR 50mln). The Bank witnessed a decrease in profitability by 18% to PKR 13.1bln in CY20 (CY19: PKR 16.0bln). The trend of decreasing profitability continued in 1QCY21 due to margin compression and clocked in at PKR 3.2bln (1QCY20: PKR 5.3bln).

Sustainability SCBPL is committed to its customer's needs with investment in the digital infrastructure. The Bank intends to focus on providing superior banking solutions to its individual clients and good Corporate / Commercial clientele. Going forward, the Bank continues to re-energize growth with a focus on income whilst keeping strong monitoring on risk management and cost-efficiency.

Financial Risk

Credit Risk Net advances of the Bank constitute 24.5% of the total assets at the end of Dec20 – decreasing 18.6% YoY (CY20: PKR 177.5bln, CY19: PKR 218.2bln). Out of total performing advances, only 1.8% are lent to the government sector while the remaining 98.2% are lent to the private sector. Advances in 1QCY21 clocked in at PKR 213.1bln as compared to PKR 241.7bln in 1QCY20.

Market Risk At the end of Dec-20, the bank's investment book represented 48.3% (CY19: 40.1%) of the total assets. Government securities continue to dominate the investment portfolio representing 100% share (CY19: 100%) - PIB's (44.3%), T-bills (48%), and 8% is held in GoP Ijarah Sukuk and Bai Muajjal. This reflects the risk-averse appetite of the bank. Investment book in 1QCY21 stood at PKR 358.8bln (1QCY20: PKR 197.3bln).

Liquidity And Funding Total Deposits were reported at PKR 556.5bln as against PKR 465.5bln last year – mainly led by growth in saving accounts by 25%. SCBPL's high proportion of CA & SA deposits (CY20: 92.5% & 93.1% 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 81.6bln in CY20 (CY19: PKR 72.9bln). SCBPL's CAR during the period increased to 19.1% (CY19: 16.9%) which is well above the regulatory requirement of 11.5%. CAR during 1QCY21 is 16.6% due to dividend payout.

PKR mln

Standard Chartered Bank (Pakistan) Limited	Mar-21	Dec-20	Dec-19	Dec-18
Listed Public Limited	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	213,114	177,544	218,219	170,650
2 Investments	358,832	349,243	248,761	278,461
3 Other Earning Assets	62,683	83,310	33,933	22,225
4 Non-Earning Assets	121,675	110,934	118,787	105,246
5 Non-Performing Finances-net	723	874	271	(501)
Total Assets	757,027	721,905	619,971	576,081
6 Deposits	557,885	556,506	465,629	424,899
7 Borrowings	32,891	23,293	20,257	24,024
8 Other Liabilities (Non-Interest Bearing)	92,238	60,428	61,168	59,920
Total Liabilities	683,014	640,227	547,054	508,843
Equity	74,014	81,678	72,917	67,238
B INCOME STATEMENT				
1 Mark Up Earned	10,382	52,222	52,240	31,207
2 Mark Up Expensed	(4,360)	(24,082)	(24,054)	(12,376)
3 Non Mark Up Income	2,282	12,800	10,890	9,688
Total Income	8,304	40,940	39,076	28,518
4 Non-Mark Up Expenses	(3,014)	(12,383)	(11,894)	(11,290)
5 Provisions/Write offs/Reversals	573	(4,941)	17	1,218
Pre-Tax Profit	5,862	23,616	27,199	18,447
6 Taxes	(2,643)	(10,483)	(11,182)	(7,207)
Profit After Tax	3,219	13,133	16,017	11,239
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.3%	4.2%	4.7%	3.4%
Non-Mark Up Expenses / Total Income	36.3%	30.2%	30.4%	39.6%
ROE	16.5%	17.0%	22.9%	17.3%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	9.8%	11.3%	11.8%	11.7%
Capital Adequacy Ratio	16.6%	19.1%	16.9%	19.1%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	71.3%	71.6%	64.5%	73.8%
(Advances + Net Non-Performing Advances) / Deposits	38.3%	32.0%	46.8%	39.9%
CA Deposits / Deposits	48.8%	43.3%	44.1%	40.8%
SA Deposits / Deposits	49.5%	49.2%	49.0%	45.6%
4 Credit Risk				
Non-Performing Advances / Gross Advances	9.3%	11.4%	7.5%	9.3%
Non-Performing Finances-net / Equity	1.0%	1.1%	0.4%	-0.7%

Credit Rating

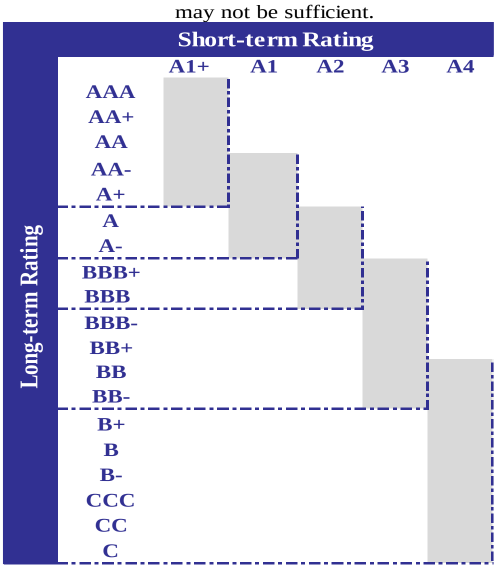
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	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
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 surveill 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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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)
Proprietary Information