



The Pakistan Credit Rating Agency Limited

STANDARD CHARTERED BANK (PAKISTAN) LIMITED (SCBPL)

ENTITY RATINGS REPORT

	NEW [JUN-15]	PREVIOUS [JUN-14]
Long-Term	AAA	AAA
Short-Term	A1+	A1+
Outlook	Stable	Stable

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JUNE 2016

Assets:

- The bank advances portfolio declined on YoY basis resulting in a dip in advances proportion to total assets (CY15: 25%, CY14: 31%, CY13: 33%) though the bank lent PKR 53bln in 1Q16.
- The sectorial concentration of the advances book was dominated by (i) Textile ~ 20% (CY14: 22%), followed by ii) Energy ~ 11% (CY14: 13%), and Chemicals and Pharmaceuticals ~ 11% (CY14: 9%).
- On the consumer side, personal loans and credit cards dominate constituting ~54% (CY14: 57%) followed by Mortgage loans ~ 22 (CY14: 24 %)

Funding

- The funding mix is largely tilted towards deposits side which has witnessed slight growth of ~5% on a YoY basis as compared to ~3% last year. The increase was lower than the industry growth.
- The deposit base represents 83% of the bank's total liabilities at end-Mar16.
- The bank's strong franchise value helps in maintaining one of the highest CASA ratio in the industry (CY15: 92%, CY14: 92%, CY13: 91%)

Credit Risk

- Owing to bank's prudent approach towards provisioning its coverage ratio stands at high (CY15: 90%, CY14: 92%)
- Marginal increase in non-performing portfolio along with a dip in the advances book led to a deterioration in the banks infection ratio. (CY15: 17%, CY14: 15%). The ratio improved during 1QCY16 (16%) with an upsurge in the advances book.

Market Risk

- The bank's investment book expanded by 19% during the period and is dominated by government securities (98%) – PIBs (67%), T-Bills (31%).

Performance

- The bank has witnessed a decline in its interest markup earned (CY15: PKR 32bln, CY14: PKR 34bln), owing to the declining interest rate environment.
- The rationalization in the cost of funds helped in maintaining the spreads resulting in a positive contribution towards the banks' net interest revenue.
- The non-interest income though marginally declined on a YoY basis yet positively contributed towards the overall revenue stream.
- With the largely maintained level of operational expenses on a YoY basis and a slight increase in the provisioning expense the bank was able to maintain its healthy profitability in line with the same period last year.

Capital

- The bank's equity remains high in the mid-size banking universe, PKR 55bln at CY15 (Dec14: PKR 54bln). SCBPL's CAR improved during the period.
- The bank has one privately placed, unsecured and subordinated TFC-IV of PKR 2,500mln, issued during Jun12, having a tenor of 10 years, profit payable at 6Mkibor+0.75bps and embedded call option, exercisable after five years

Business Strategy

- The management intends to strengthen its per client profitability. The bank will remain focused in providing banking solutions to its specific niche of high net worth individuals and quality corporate clientele.

Profile

- SCBPL, incorporated in Pakistan in Jul06, is majority owned (99%) by Standard Chartered PLC and have a network of 101 branches at end Mar16.
- The international rating agencies have downgraded the ratings of Standard Chartered PLC during the year (Fitch: A+, S&P: BBB+, Moody's: A1).

Governance and Management

- The bank has seven-member BoD includes four representatives of SC Group including the CEO and three independent members.
- Mr. Sunil Kaushal has been appointed as the Chairman of the Board in place of outgoing chairman Mr. Christos Papadopolus in addition to the change in two other Group nominees.
- Mr. Sunil Kaushal is the Regional CEO for Africa and Middle East Region. Mr. Shazad Dada, CEO, possesses vast experience of over 25 years in various international financial institutions.

RATING RATIONALE

The ratings reflect SCBPL's association with a financially sound and reputed international bank - Standard Chartered PLC. This is supplemented by SCBPL's strategic and operational integration into the parent as the bank continues to benefit from the technical resources and cumulative expertise developed at the group level. The risk profile of the parent institution come under pressure - hence international rating reviewed downward, though still remains strong - due to loss in some key markets; the revival is underway. This is crucial to SCBPL's local rating. The ratings incorporate the bank's edge in niche market (MNCs and established domestic corporates & consumer through an elaborate product suite), wherein, its international franchise is advantageous. At the same time, the ratings factor in sound management quality, healthy spreads, and ample liquidity of the bank. SCBPL's predominantly low cost deposit base, while distinguishing it in peer universe, facilitates core operating activities.

KEY RATING DRIVERS

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.

DEBT INSTRUMENT

SCBPL currently has one privately placed unsecured subordinated TFC outstanding - 4th Issue. The instrument (issued in Jun12) has a tenor of 10-years, with profit payable at a floating interest rate of 6-months KIBOR+0.75%. The issue contains a call option which is exercisable after the first five years (July17). The entire principal would be repaid in the tenth year (Jun22) in two equal semi-annual installments.



The Pakistan Credit Rating Agency Limited
Standard Chartered Bank

BALANCE SHEET	30-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	1QCY15	Annual	Annual	Annual
Earning Assets				
Advances	117,262	112,214	126,944	132,918
Debt Instruments	285	285	285	285
Total Finances	117,547	112,499	127,229	133,203
Investments	238,115	220,774	188,905	146,402
Others	35,099	38,585	22,643	34,753
	390,761	371,859	338,778	314,358
Non Earning Assets				
Non-Earning Cash	13,581	17,455	10,033	21,188
Deferred Tax	-	-	-	-
Net Non-Performing Finances	4,198	3,502	1,646	2,577
Fixed Assets & Others	49,212	54,532	58,623	61,315
	66,991	75,489	70,302	85,080
TOTAL ASSETS	457,751	447,348	409,079	399,438
Interest Bearing Liabilities				
Deposits	344,686	327,238	304,504	296,557
Borrowings	16,972	38,401	19,745	19,066
	361,658	365,638	324,248	315,623
Non Interest Bearing Liabilities	36,749	19,759	24,605	28,086
TOTAL LIABILITIES	398,407	385,397	348,853	343,709
EQUITY (including revaluation surplus)	59,344	61,950	60,226	55,729
Total Liabilities & Equity	457,751	447,348	409,079	399,438
INCOME STATEMENT	30-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	1QCY15	Annual	Annual	Annual
Interest / Mark up Earned	7,677	32,938	34,106	30,377
Interest / Mark up Expensed	(2,199)	(10,630)	(13,243)	(12,048)
Net Interest / Markup revenue	5,477	22,308	20,863	18,329
Other Income	2,242	6,303	7,393	6,966
Total Revenue	7,719	28,611	28,256	25,294
Non-Interest / Non-Mark up Expensed	(2,805)	(12,417)	(12,560)	(6,369)
Pre-provision operating profit	4,914	16,194	15,696	18,925
Provisions	312	(853)	(466)	206
Pre-tax profit	5,226	15,341	15,231	19,131
Taxes	(1,484)	(6,053)	(5,506)	(1,360)
Net Income	3,742	9,288	9,725	17,771
Ratio Analysis	30-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	1QCY15	Annual	Annual	Annual
Performance				
ROE	23.7%	27.8%	18.2%	7.7%
Cost-to-Total Net Revenue	36.6%	42.9%	44.5%	25.4%
Provision Expense / Pre Provision Profit	4.5%	5.3%	3.0%	-1.1%
Capital Adequacy				
Equity/Total Assets	11.7%	12.3%	13.3%	13.1%
Capital Adequacy Ratio as per SBP	0.0%	19.1%	19.1%	0.0%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	73.5%	70.0%	65.8%	57.1%
Advances / Deposits	35.2%	35.4%	42.2%	45.7%
CASA deposits / Total Customer Deposits	92.6%	92.5%	92.5%	91.2%
Intermediation Efficiency				
Asset Yield	16.5%	9.3%	10.5%	10.0%
Cost of Funds	2.4%	3.1%	4.1%	3.7%
Spread	5.6%	6.2%	6.3%	6.3%
Outreach				
Branches	101	101	238	-

Mar-16



STANDARD 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 AA+ AA AA- A+ A A-	<p>Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p> <p>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.</p> <p>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.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>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.</p>	
BB+ BB BB-	<p>Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>Highly speculative. Significant 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.</p>	
CCC CC C	<p>High default 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.</p>	
D	<p>Obligations are currently in default.</p>	

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

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’.

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, or e) the entity/issuer defaults.

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Name of Issuer
Sector
Type of Relationship

Standard Chartered Bank (Pakistan) Limited
Banking
Solicited

Purpose of the Rating

Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Outlook	Action
19-Jun-16	AAA	Stable	Maintain
19-Jun-15	AAA	Stable	Maintain
19-Jun-14	AAA	Stable	Maintain
27-Jun-13	AAA	Stable	Maintain
2-Jul-12	AAA	Stable	Initial
18-Apr-12	AAA	Stable	Preliminary

Instrument Details

Instrument	Size of Issue (PKR mln)	Tenor (yrs) & Maturity	Intallment Frequency	Rate	Major Principal Redemption	Call Option	Outstanding Principal end-Mar15 (PKR mln)	Trustee
PPTFC-IV: Unsecured, subordinated	2,500	10yrs - Jun-2021	Semi-annual	6Mkibor+0.75bps	equal semi annual payments at the tenth year	Call option exercisable after 5 years of issue date	2,500	Pak Brunei Investment Co. Limited

Related Criteria and Research

Rating Methodology
Sector Research

Bank Rating Methodology
Banking Sector - Viewpoint | N 15-Dec

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Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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or issuer of the debt instrument, and ii) fee mandate - signed with the payer, which can be different from the entity

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance

PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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[Probability of Default \(PD\)](#)

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