

RATING REPORT

Summit Bank Limited

REPORT DATE:

July 3, 2015

RATING ANALYSTS:

Talha Iqbal

Talha.Iqbal@jcrvis.com.pk

Birjees Rahat

Birjees.rahat@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
TFC-1	A(SO)		A(SO)	
Rating Outlook	Stable		Stable	
Rating Date	June 30, '15		December 26, '14	

COMPANY INFORMATION

Incorporated in 2005	External auditors: Ernst & Young Ford Rhodes Sidat Hyder
Public Limited Company	Chairman of the Board: Mr. Nasser Abdulla Hussain Lootah
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Husain Lawai
Suroor Investments Limited – 51.46%	
Shirazi Capital Limited – 5.20%	

APPLICABLE METHODOLOGY(IES)

 PRIMER - Commercial Banks (December 2001): <http://jcrvis.com.pk/images/primercb.pdf>

Summit Bank Limited

OVERVIEW OF THE INSTITUTION

SBL is incorporated in Pakistan as a public limited bank. The bank's head office is in Karachi and majority shareholding is vested with Suroor Investments Limited, a company incorporated in Mauritius. The bank operates with a network of 188 branches.

RATING RATIONALE

The ratings assigned to Summit Bank Limited (SBL) incorporate demonstrated financial support of the bank's major sponsor Suroor Investments Limited by way of injection of Rs. 7b as advance share subscription money. This has allowed the bank to achieve compliance with the minimum capital requirement of Rs. 10b in addition to achieving Capital Adequacy Ratio above 10%. At end-March 2015, CAR was reported at 11%. However, in the backdrop of deduction of Deferred Tax Asset from Common Equity Tier-1, reduction in eligible amount of sub-ordinated debt to be counted as Tier-2 capital, higher risk charge on unrated exposures, the quality of assets and progressively increasing capital requirements under Basel III, the capital cushion available needs to be strengthened further.

Asset quality indicators have shown improvement on a timeline basis in view of reduction in NPLs; moreover, sovereign exposures by way of investments and advances represented 28% of the asset base. The bank has achieved reduction of Rs. 8.6b in non-performing loans over the last two years. The bank has projected to achieve sizeable reduction in net infection over time and JCR-VIS will continue to track progress against the same.

Liquid assets in relation to deposits & borrowings have declined on a timeline basis, on account of growth in lending activities. Improving deposit mix and lower depositor concentration levels of the bank provide support to liquidity assessment of the institution.

During 2014, operating loss of the bank has reduced on a quarter on quarter basis on account of reduction in deposit cost, increase in mark-up income due to high yielding PIBs, decrease in NPLs and growth in fee commission income. Capital gains realized during the year 2014 enabled the bank to achieve profitable results. Since the bank has already booked gains on sale of a portion of higher yielding PIBs, redeployment of funds at prevailing interest rates is likely to impact markup income. Enhanced focus on recoveries is being pursued for curtailment of provisioning expense to reduce the drag on the bank's bottom line. JCR-VIS will continue to track progress against the budgeted targets communicated by the management.

Summit Bank Limited Appendix II

FINANCIAL SUMMARY			
	<i>(amounts in PKR Billions)</i>		
<u>BALANCE SHEET</u>	31-Dec-12	31-Dec-13	31-Dec-14
Total Investments	49.95	39.69	45.50
Advances	52.55	54.21	66.45
Total Assets	134.39	125.56	148.46
Borrowings	28.90	9.96	25.31
Deposits & other accounts	96.92	106.35	105.31
Subordinated Loans	1.50	1.50	1.50
Tier-1 Equity	2.90	3.25	11.02
Net Worth	3.06	3.39	12.36
<u>INCOME STATEMENT</u>	31-Dec-12	31-Dec-13	31-Dec-14
Net Mark-up Income	0.13	0.85	2.43
Net Provisioning	0.03	-0.84	0.56
Non-Markup Income	1.38	1.69	3.12
Operating Expenses	4.00	4.78	4.97
Profit Before Tax	-2.52	-1.41	0.01
Profit After Tax	-2.73	-1.83	0.23
<u>RATIO ANALYSIS</u>	31-Dec-12	31-Dec-13	31-Dec-14
Market Share (Advances) (%)	1.36%	1.33%	1.49%
Market Share (Deposits) (%)	1.45%	1.41%	1.26%
Gross Infection (%)	36.05%	27.16%	19.07%
Provisioning Coverage (%)	52.93%	63.66%	76.32%
Net Infection (%)	20.97%	11.93%	5.28%
Cost of deposits (%)	8.40%	6.30%	5.66%
Net NPLs to Tier-1 Capital (%)	379.86%	197.90%	31.82%
Capital Adequacy Ratio (C.A.R (%))	4.40%	4.25%	12.05%
Markup Spreads (%)	2.74%	2.16%	3.04%
Efficiency (%)	309.88%	187.70%	119.80%
Basic ROAA (%)	n/a	n/a	0.01%
ROAA (%)	n/a	n/a	0.17%
ROAE (%)	n/a	n/a	2.91%
Liquid Assets to Deposits & Borrowings (%)	35%	40%	35%

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

{SO} Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES

Appendix IV

Name of Rated Entity	Summit Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity and TFC-I rating

Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
<u>RATING TYPE: ENTITY</u>					
	6/30/2015	A	A-1	Stable	Reaffirmed
	12/26/2014	A	A-1	Stable	Upgrade
	6/30/2014	A-	A-3	Rating Watch - Developing	Reaffirmed on Rating Watch
	7/19/2013	A-	A-3	Rating Watch - Developing	Maintained
	3/19/2012	A-	A-2	Stable	Downgrade
	3/19/2012	A-	A-2	Stable	Downgrade
	4/1/2011	A	A-2	Rating Watch - Developing	Reaffirmed
<u>RATING TYPE: TFC-I</u>					
	6/30/2015	A (SO)		Stable	Reaffirmed
	12/26/2014	A (SO)		Stable	Upgrade
	6/30/2014	A- (SO)		Rating Watch - Developing	Reaffirmed on Rating Watch
	7/19/2013	A- (SO)		Rating Watch - Developing	Maintained
	3/19/2012	A- (SO)		Stable	Downgrade
	4/1/2011	A (SO)		Rating Watch - Developing	Initial
Instrument Structure	<p>SBL issued debt instrument of Rs. 1.5b in 2011, with a seven year term and repayable almost entirely in one bullet payment. The instrument is set to mature on October 26, 2018 and carries coupon rate of 6M KIBOR + 325bps.</p> <p>The TFC is a listed, sub-ordinated and structured obligation. Rating assigned to the subordinated issue of SBL, derives strength from the personal assurance of the Chairman of SBL, who is also the owner of the bank's major sponsor Suroor Investments Limited (SIL).</p>				
Statement by the Rating Team	<p>JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.</p>				
Probability of Default	<p>JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.</p>				
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