RATING REPORT

Summit Bank Limited (SBL)

REPORT DATE:
July 05, 2018

RATING ANALYSTS:
Talha Iqbal
jazib.ahmed@jcrvis.com.pk

Sidra Qureshi
sidra.qureshi@jcrvis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-1	A-	A-1
TFC-1	A-(SO)		A-(SO)	
Rating Outlook	Rating Watch-Developing		Rating Watch-Developing	
Rating Date	*June 29,'18*		*June 30,'17*	

COMPANY INFORMATION

Incorporated in 2005	External auditors: **Deloitte Yousuf Adil, Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. Nasser Abdulla Hussain Lootah**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Muhammad Zahir Esmail**
Suroor Investments Limited – 66.77%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Commercial Banks Rating: http://jcrvis.com.pk/docs/Meth-CommercialBanks201803.pdf

Summit Bank Limited (SBL)

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 193 branches.

Profile of the Chairman

Mr. Nasser Abdulla Hussain Lootah is the Chairman of the Board of Directors. He is the Chairman & founder of Nasser Abdulla Lootah Group (NALG) setup since 45 years in UAE. Mr. Lootah is also Patron of the Australian Business Council – Dubai.

Profile of the CEO

Mr. Muhammad Zahir Esmail is the CEO of the bank. Mr. Zahir is a seasoned banker with over 45 years of work experience. Mr. Esmail is a graduate from Karachi University. He holds a Diploma and Post Graduate Diploma in Accountancy and Islamic Banking, respectively.

RATING RATIONALE

Summit Bank Limited (SBL) and another commercial bank have decided to consider the potential merger of the two institutions, subject to approval of State Bank of Pakistan and applicable corporate and regulatory compliances. The regulatory short fall in capital requirements is expected to be resolved with the planned merger. During 2017, after the completion of due diligence exercise, both the banks had agreed to a swap ratio. However, due to non-completion of the proposed merger by December 31, 2017, a new swap ratio based on the financials of Dec'2017 is being determined.

In line with the Bank's strategic vision, Islamic banking footprint was enhanced to 49 branches (including 14 Islamic banking branches and 35 Islamic banking windows) during the outgoing year., During 2017, apart from efforts to conclude the planned merger transaction, the Bank kept its due focus on the core business activities whereby its average deposit base posted double digit growth while market share in domestic deposits was reported at 1.2% at end-Decmber'2017. Moreover, trade business undertaken also depicted growth vis-à-vis corresponding period last year.

Rating Drivers

Sponsor Support: The assigned ratings incorporate firm commitment of the sponsor (Suroor Investment Limited) to provide required amount of capital for complying with applicable regulatory requirements on or before 31st December 2018 in case the Board of Directors decide not to pursue the merger option. Ratings draw comfort from demonstrated track record of the sponsors in this regard. However, in case of non-compliance with regulatory requirements beyond December'2018, ratings may face downward pressure.

Capitalization: Capitalization indicators of the Bank have depicted weakening on a timeline basis. Paid-up-capital (net of losses) of the bank amounted to Rs. 9.09b (2017: 9.39b; 2016: Rs. 10.41b) at end-1Q18. Decline in equity base was on account of loss incurred during 2017 and 1Q18 while Tier-1 capital was lower due to higher reduction of deferred tax asset (DTA) (expiry of regulatory relaxation and increase in deduction of DTAs from Tier 1 capital as per SBP Basel 3 regulations). Tier-1 and overall CAR were below regulatory requirement at 3.73% (2017: 4.13%; 2016: 8.01%) and 4.64% (2017: 5.01%; 2016: 10.1%), respectively, at end-1Q18. Moreover, leverage ratio was 1.67% vis-à-vis regulatory requirement of 3%. Weakening in capitalization indicators is evident from increase in net-NPLs to Tier-1 equity which was reported at 85.4% (2017: 60.3%; 2016: 26%) at end-1Q18. Management is targeting recoveries from NPLs, gain from sale of a portion of the property held on the balance sheet and equity injection by the sponsors in case the board decides not to pursue the merger option, to support capitalization levels.

Liquidity: Liquidity profile of SBL is adequate and supported by depositor granularity and liquid assets carried on the balance sheet. On average basis, deposit base increased by 11.16% during 2017 while proportion of current accounts in deposit mix was reported at 34%. Given the focus on deposit mix, deposit cost reduced by 28bps to 3.36% (2016: 3.64%) in 2017. Liquidity Coverage Ratio was reported at 113% vis-à-vis regulatory requirement of 90% while Net Stability Funding ratio was reported at 123% vis-à-vis regulatory requirement of 100%.

Asset Quality: Corporate segment comprises the major portion of the bank's lending portfolio. Largest sectoral exposures are to the textile and sugar sectors with lending primarily to mid-tier corporates. Credit risk emanating from the financing portfolio is sizeable as evident from net infection of 4.5% at end-1Q18. The Bank has availed Forced Sale Value (FSV) against collateral translating into a provision benefit of Rs. 2.6 billion at end-1Q18. Management intends to minimize the provisioning expense, arising on account of FSV withdrawal and provisions in lieu of fresh classification, through recoveries from existing non-performing clients.

Profitability: While trend in operating losses has persisted, quantum of the same has declined on a timeline basis on the back of volumetric growth in earning assets, decline in cost of deposits and increase in foreign exchange income. Lower overall provisioning charges translated into a significant reduction in loss before tax to Rs. 762.8m (2016: loss before tax of Rs. 1.9b). Operating losses declined to Rs. 169m (1Q17: Rs. 273m) during 1Q18 due to lower administrative expenses and higher net interest income.

Summit Bank Limited

Appendix I

FINANCIAL SUMMARY			*(Amounts in Rs. Billions)*
BALANCE SHEET	**31st Dec'17**	**31st Dec'16**	**31st Dec'15**
Total Investments	95.2	90.6	78.2
Advances	85.5	79.8	70.6
Total Assets	233.0	215.0	188.4
Borrowings	67.3	49.8	49.8
Deposits & other accounts	145.7	142.9	119.9
Subordinated Loans	1.5	1.5	1.5
Tier-1 Equity	5.1	9.0	9.3
Net Worth *(Excluding Surplus on revaluation of assets)*	9.5	10.6	10.8
INCOME STATEMENT	**31st Dec'17**	**31st Dec'16**	**31st Dec'15**
Net Mark-up Income	2.9	2.77	3.05
Net Provisioning	(0.1)	1.88	1.58
Non-Markup Income	2.4	3.13	4.32
Operating Expenses	6.2	5.93	5.14
Profit Before Tax	(0.76)	(1.92)	0.66
Profit After Tax	(1.15)	(2.17)	0.22
RATIO ANALYSIS	**31st Dec'17**	**31st Dec'16**	**31st Dec'15**
Market Share (Advances) (%)	1.5%	1.7%	1.7%
Market Share (Deposits) (%)	1.2%	1.3%	1.2%
Gross Infection (%)	17.1%	17.7%	20.7%
Total Provisioning Coverage (%)	82.10%	86.2%	73.0%
Net Infection (%)	3.6%	2.9%	6.6%
Cost of deposits (%)	3.4%	3.64%	4.61%
Net NPLs to Tier-1 Capital (%)	60.3%	26.0%	50.1%
Capital Adequacy Ratio (C.A.R (%))	5.0%	10.10%	10.02%
Efficiency (%)	124.4%	127%	105%
ROAA (%)	(0.5%)	-1.1%	0.1%
ROAE (%)	(11.4%)	-20.4%	2.0%
Liquid Assets to Deposits & Borrowings (%)	35.0%	37.1%	38.2%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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

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.

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 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 III

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
		RATING TYPE: ENTITY		
6/29/2018	A-	A-1	Rating Watch-Developing	Reaffirmed
6/30/2017	A-	A-1	Rating Watch-Developing	Maintained
6/30/2016	A-	A-1	Stable	Downgrade
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
		RATING TYPE: TFC-I		
6/29/2018	A-(SO)		Rating Watch-Developing	Reaffirmed
6/30/2017	A-(SO)		Rating Watch-Developing	Maintained
6/30/2016	A-(SO)		Stable	Downgrade
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	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. The TFC is a listed, subordinated 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).
Statement by the Rating Team	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.
Probability of Default	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such