Summit Bank Limited

Chairman: Mr. Nasser Abdulla Hussain Lootah; President & CEO: Mr. Husain Lawai

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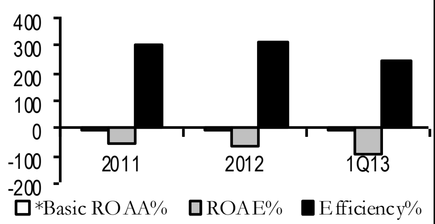
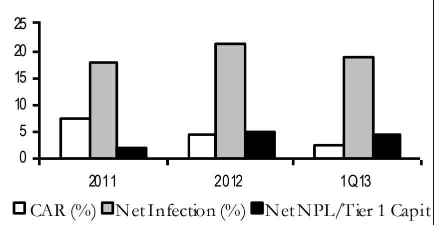
Category	**Latest***	**Previous**
Entity	A-/A-3 *July 19,'13*	A-/A-2 *Mar 19,'12*
TFC-1-	*A-(SO)*	*A- (SO)*
Outlook	N/A	**Stable**

*Placed under Rating Watch – Developing status

Key Financial Trends



** Based on recurring profit before provision and taxation*



	2011	2012	1Q13
Net Advances (Rs. in b)	56	52.6	52.7
Deposits(Rs.in b) Market Share %	89.7 1.53%	96.9 1.45%	98.6 1.46%
Deposit Cost (%)	9.6%	8.24%	6.39%
Profit / (Loss) (Rs.in b)	(1.2)	(2.7)	(0.67)
Equity (Rs. in b)	5.8	3.1	2.2
CAR (%)	7.5%	4.4%	2.74%
Liquid Assets % Deposits & Borrowings	31%	35.4%	35.9%
Net Infection (%)	17.9%	21%	18.9%

Rating Rationale

Summit Bank Limited (SBL) is the surviving entity after amalgamation of three different banks. The bank continued to post operational losses amidst significant non-performing assets, thereby eroding equity on books. Net NPLs stood at 4.8 times of Tier-1 capital at end FY12 with CAR being well below the regulatory requirement. SBL is in the process of issuing convertible preference shares of Rs. 2.155b, with Rs. 930m already received from the major sponsor. Further capital injection of Rs. 5b is also planned subsequently. Given the trend in losses, the bank may not meet the MCR requirement of Rs. 10b by end FY13 even with proposed equity injection; it is nevertheless important for continued solvency of the bank.

Lending activities remained subdued on account of capital constraints with gross advances portfolio decreasing to Rs. 64.9b (FY11: Rs. 68.4b) in FY12 and remaining around the same level in 1Q13. Asset quality indicators also continued to depict a deteriorating trend with more than one third of the portfolio being non-performing. Increase in infection was largely a function of shrinking lending base with the SME portfolio being the most affected one. Few large non-performing exposures were also prominent in the textile & chemical sectors where delinquency ratio is the highest. There has been some improvement in infection during 1Q13 though it continues to remain very high.

The bank mobilized low cost deposits with CASA improving to 53.5% of the deposit base in FY12 and further to 61.2% in 1Q13; there was also an improvement in deposit concentration levels. Given the limited lending activities, advances to deposits ratio declined to 54.2% (FY11: 62.5%) during FY12. Funds mobilized from deposits were largely channeled towards government paper, thereby slightly improving the bank's liquidity position in relation to total deposits and borrowings. Given the quality of assets, liquidity cushion may need to be augmented further.

A large proportion of non-earning assets on the balance sheet continues to have a drag on returns. Moreover, declining interest rates have marginalized spreads. There was some support to revenue stream from non markup based avenues on account of increase in fee income on which the bank is concentrating while there was also improvement in gain from dealing in foreign currencies and gain on sale of equities in line with stock market improvement; however, efficiency ratios remained high on account of weak revenue generation. The bank has enhanced its recovery efforts for over dues with notable reversals against past provisioning during 2012 though there was equivalent fresh provisioning on account of new NPLs. Net loss increased to Rs. 2.7b in FY12 as compared to Rs. 1.2b in the preceding year while loss during 1Q13 was also substantial at Rs. 0.67b. As per projections, losses are expected to continue in the on-going year.

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 held by Suroor Investments Limited, a company incorporated in Mauritius. The bank operates with a network of 186 branches and is listed on all three stock exchanges. Financial statements for 2012 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder and Co. JCR-VIS