

Summit Bank Limited

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

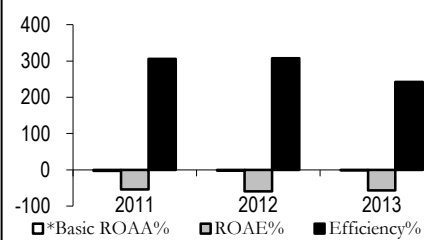
July 7, 2014

Analysts: Amir Shafique
Faiq Sattar

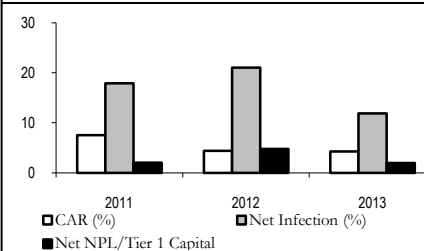
Category	Latest	Previous
Entity	A-/A-3 Jun 30, '14	A-/A-3 Jul 19, '13
TFC-1	A-(SO)	A-(SO)
Outlook*	N/A	N/A

*Placed under Rating Watch – Developing status

Key Financial Trends



* Based on recurring profit before provision and taxation



	2011	2012	2013
Net Advances (Rs. in b)	56	52.6	54.2
Deposits (Rs. in b)	89.7	96.9	106.4
Market Share %	1.53%	1.45%	1.41%
Deposit Cost (%)	9.6%	8.24%	6.0%
Profit / (Loss) (Rs. in b)	(1.2)	(2.7)	(1.8)
Equity (Rs. in b)	5.8	3.1	3.4
CAR (%)	7.5%	4.4%	4.25%
Liquid Assets % Deposits & Borrowings	31%	35%	40%
Net Infection (%)	17.9%	21%	11.9%

Rating Rationale

In 2013, Summit Bank Limited (SBL) issued convertible preference shares of Rs. 2.2b; however, with a loss of Rs. 1.8b reported for the year, net worth of the bank increased only marginally to Rs. 3.4b (FY12: Rs. 3.1b). A 65% rights share issue of Rs. 7b is on the anvil. The bank has already received almost Rs. 2.5b from the principal sponsor in the on-going year as advance against the proposed rights issue with a commitment to provide the remaining amount, in case of shortfall from other shareholders.

At current levels, the bank's key financial indicators are under significant stress. The planned equity injection is likely to enable the bank to meet the Minimum Capital Requirement (MCR), while also reinstating its risk profile, provided the bank does not incur major loss in 2014. State Bank of Pakistan has allowed extension in meeting the MCR and CAR until September 30, 2014.

Future strategic direction of the bank entails conversion into an Islamic bank, roadmap for which has been approved by the Board of Directors. The conversion is targeted to be achieved in three years i.e. by 2016. In this regard, existing branches will be converted to Islamic banking branches in a phased manner with 30, 60 and 96 branches to be converted during 2014, 2015 and 2016, respectively. Islamic banking is getting increasingly entrenched in Pakistan and presents significant potential for growth for both existing and new players.

Lending activities of SBL remained restricted in 2013 amidst capital constraints. Following the equity injection, the bank may be in a position to take advantage of growth opportunities in the market. In 2013, the bank achieved reduction in non-performing loans (NPLs) on the back of recoveries and sizeable amount of declassifications; however the quantum of NPLs is still sizeable in relation to net equity at almost 2 times. Portfolio quality may need to be closely monitored as there may be risk of future credit losses; as per external auditors, clients with aggregate exposures of Rs. 2.5b, currently classified as regular by the bank, require close monitoring, given their risk profiles and payment behavior.

The bank carried an investment portfolio of Rs. 39.7b (FY12: Rs. 49.9b) at end 2013, with almost 88% of the same deployed in government paper. During 2013, further provisions were created against non-performing corporate debt instruments, reducing net exposure against the same. The bank made additional investments in PIBs and listed shares. Given the bank's limited loss absorption capacity, price risk arising from the portfolio is considered on the higher side.

Deposit mix of the bank has posted improvement, as reflected in growth in current accounts relative to end FY12 level. Liquid assets in relation to total deposits and borrowings also increased to 39.9% (FY12: 35.1%). Depositor concentration levels may need to be rationalized to further strengthen the liquidity profile of the bank.

The bank incurred loss of Rs. 2.6b (FY12: Rs. 3.1b) from core operations. With equity comprising only 3% of total assets while non-earning assets comprise a sizeable 18%, losses are likely to persist till such time the bank is able to achieve meaningful improvement in asset mix. The bank has booked deferred tax asset of Rs. 5.8b (FY12: Rs. 6b) including Rs. 4b in lieu of unused tax losses, in expectation of realizing the benefit of the same in future. This is contingent upon future profitability within a specific time frame. Capital injection is likely to have a positive impact on the bank's earnings stream and liquidity profile.

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 187 branches and is listed on all three stock exchanges. Financial statements for 2013 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder and Co. **JCR-VIS**

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: ENTITY</u>				
30-Jun-14	A-	Rating Watch – Developing	A-3	Reaffirmed on Rating Watch
19-Jul-13	A-	Rating Watch – Developing	A-3	Maintained
19-Mar-12	A-	Stable	A-2	Downgrade
19-Mar-12	A-	Stable		Downgrade
01-Apr-11	A	Rating Watch – Developing	A-2	Reaffirmed
29-Jun-10	A	Rating Watch – Developing	A-2	Reaffirmed
<u>RATING TYPE: TFC – 1</u>				
30-Jun-14	A- (SO)	Rating Watch – Developing		Reaffirmed on Rating Watch
19-Jul-13	A- (SO)	Rating Watch – Developing		Maintained
19-Mar-12	A- (SO)	Stable		Downgrade
01-Apr-11	A (SO)	Rating Watch – Developing		Initial