RATING REPORT

Summit Bank Limited

REPORT DATE:
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RATING ANALYSTS:
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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, '16*		*June 30, '15*	

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 – 70.58%	

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 192 branches.

RATING RATIONALE

The assigned ratings to Summit Bank Limited (Summit) incorporate continued commitment and demonstrated financial support of the bank's major sponsor Suroor Investments Limited. The bank is in the process of raising capital of Rs. 2 billion through right issue, out of which Rs. 957 m has been received as advance shares subscription money from the sponsor by end-June-2016.

In line with its strategy, Summit targets conversion to an Islamic Bank by end-2017. In this regard, implementation of new core banking system and conversion of branches is in process. Special focus is being given to training of staff for successful execution of this strategic initiative.

While investments and advances increased in absolute terms at end-2015, proportion of investments in total assets increased to 41% (2014: 31%) with additional liquidity primarily being deployed in government securities. At end-2015, proportion of advances declined to 37% (2014: 45%) of the asset base. Sovereign exposures by way of investments and advances represented 39% (2014: 28%) of the asset base. Non-earning assets represented 11% (2014: 12%) and 188% (2014: 164%) of total assets and equity at end-2015, respectively and were a drag on profitability.

Rating Drivers

Credit Risk: 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. The Bank has availed Forced Sale Value (FSV) benefit translating into a provision benefit of Rs. 2.04 billion at end-2015. 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. Moreover, enhanced monitoring is being pursued for effective management of overall quality of the credit portfolio. Credit and market risk emanating from the investment portfolio is considered manageable.

Liquidity: Given the depositor profile and liquid assets carried on the balance sheet (35%), liquidity profile of Summit is adequate. Though depositor concentration level slightly increased, the proportion of CASA in deposit mix was higher at around 70% at end-2015 as a result of which the bank managed to reduce cost of deposits. Focus on low cost deposits and re-profiling of saving deposits is expected to further reduce cost of deposits in the ongoing year. Gross advances (adjusted for borrowings taken for export refinance) to total deposits ratio declined to 65% (2014: 69%) at end-2015.

Capitalization: Capitalization indicators of the Bank have weakened on a timeline basis with a reduction in net equity (3M16: Rs. 10.17b; 2015: Rs. 10.8b; 2014: Rs. 11b), decline in Capital Adequacy Ratio (3M16: 9.15%; 2015: 10.02%; 2014: 12.05%) and increase in Net-NPLs in relation to Tier-1 equity (2015: 50.1%; 2014: 36.9%). In order to enable bank's compliance with the capital adequacy ratio (CAR) requirement and to strengthen its capital base for future growth initiatives and improved risk absorption capacity, equity injection of Rs. 2b through right issue is targeted to be completed during the ongoing year. Out of Rs. 2b, an amount of Rs. 957m has already been injected as advance shares subscription money by end-June-2016 while the remaining amount is expected during the third quarter of the ongoing year. Moreover, the bank intends to manage growth in risk weighted assets through consolidation of the corporate portfolio. Commitment of sponsors to meet capital shortfall provides support to capitalization assessment.

Profitability: During 2015, bank's pre-tax profit registered significant growth on account of gain on sale of securities while provisions continued to be a drag on bottom line. Furthermore, quantum of operating loss declined. Apart from main contribution of improved net interest income, there was healthy contribution of fee-based income and forex income in overall recurring revenues stream. During 3M16, reduced net interest income (due to income suspension) and additional provisioning taken against the financing portfolio translated into loss before tax of Rs. 905m. Going forward, management has projected operating profitability for 2016. The bank plans to focus on increase in net interest income through volumetric growth in earning assets and reduction in cost of deposits apart from growth in fee based and forex income. Targeted recoveries from NPLs are projected to further support the bottom-line in the form of provision reversals. Moreover, gain from sale of a property is projected in the ongoing year which if materializes will support the profitability and capitalization levels.

Summit Bank Limited

Appendix II

FINANCIAL SUMMARY	*(amounts in PKR Billions)*		
BALANCE SHEET	**31st Dec'15**	**31st Dec'14**	**31st Dec'13**
Total Investments	77.73	45.50	39.69
Advances	70.55	66.45	54.21
Total Assets	188.42	148.46	125.56
Borrowings	49.76	25.30	9.96
Deposits & other accounts	119.85	105.31	106.35
Subordinated Loans	1.50	1.50	1.50
Tier-1 Equity	9.29	9.50	2.70
Net Worth*(Excluding Surplus on revaluation of assets)*	10.80	11.02	3.25
INCOME STATEMENT	**31st Dec'15**	**31st Dec'14**	**31st Dec'13**
Net Mark-up Income	3.05	2.43	0.85
Net Provisioning	1.58	0.56	-0.84
Non-Markup Income	4.32	3.12	1.69
Operating Expenses	5.14	4.97	4.78
Profit Before Tax	0.66	0.01	-1.41
Profit After Tax	0.22	0.23	-1.83
RATIO ANALYSIS	**31st Dec'15**	**31st Dec'14**	**31st Dec'13**
Market Share (Advances) (%)	1.7%	1.7%	1.6%
Market Share (Deposits) (%)	1.2%	1.2%	1.4%
Gross Infection (%)	20.7%	19.1%	27.2%
Total Provisioning Coverage (%)	73.0%	76.5%	63.8%
Net Infection (%)	6.6%	5.3%	11.9%
Cost of deposits (%)	4.61%	5.66%	6.30%
Net NPLs to Tier-1 Capital (%)	50.1%	36.9%	241.5%
Capital Adequacy Ratio (C.A.R (%))	10.02%	12.05%	4.25%
Markup Spreads (%)	2.88%	3.60%	n/a
Efficiency (%)	105%	120%	188%
ROAA (%)	0.1%	0.2%	-1.4%
ROAE (%)	2.0%	3.9%	-63.8%
Liquid Assets to Deposits & Borrowings (%)	35.1%	34.4%	41.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

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 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
		RATING TYPE: ENTITY		
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		
6/30/2016	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, 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).

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.

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