RATING REPORT

Summit Bank Limited (SBL)

REPORT DATE:
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RATING ANALYSTS:
Jazib Ahmed, CFA
jazib.ahmed@jcrvis.com.pk

Sidra Qureshi
sidra.qureshi@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	Rating Watch-Developing		Stable	
Rating Date	*June 30,'17*		*June 30, '16*	

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 (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 192 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

The ratings assigned to SBL incorporate continued financial support of the bank's major sponsor Suroor Investments Limited (SIL). During the outgoing year, an additional Rs. 1,854.9m (including Rs. 1,157.7m by SIL) was injected by the way of advance against capital in order to allow the Bank to achieve compliance with minimum capital requirements.

During the year, the bank continued to convert its conventional branches to Islamic in line with its business plan of converting to an Islamic bank. In this respect, the bank is also in process of implementing the new core-banking system i.e. iMAL Core Banking System. The Analysis and Design Phase of the project has been completed. Build, Test and Deployment phase are the next phases to be completed.

During the outgoing year, SBL and another commercial bank 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 details with respect to the merger are expected to be executed within the upcoming quarter.

Rating Drivers

Advances: The gross advances portfolio of the bank grew by 13% during 2016. Corporate segment comprises major portion of the bank's lending portfolio followed by SME segment. The bank is following a prudent strategy towards incremental disbursements to new clients. Resultantly, concentration in the financing portfolio witnessed increase in the outgoing year. Largest sector exposures are in textile and sugar sectors. The bank has significantly increased exposure in Energy, oil, gas and power sector; growing its exposure to Rs. 10.0b. (2015: Rs. 5.5b). Going forward, the bank plans to further tap its non-funded trade business in which SBL is already outperforming its peers. Moreover, the bank will continue monitoring its underwriting standards and intends to regularly follow-up with the clients to prevent any adverse impact on the health of its portfolio.

Asset Quality: Infection levels improved in 2016 on the back of enhancement in financing portfolio and additional provisions undertaken during the year as well as slight reduction in NPLs. Gross infection level decreased to 17.7% (2015: 20.7%) at end 2016. Due to a sizeable provisioning taken against advances, provisioning coverage (specific & general) increased to 86.2% (2015: 73%) at end 2016, which reflects a healthy coverage against NPLs. The Bank has availed Forced Sale Value (FSV) benefit translating into a provision benefit of Rs. 1.8 billion at end 2016. Going forward, the management intends to continue with aggressive recovery efforts to curtail provisioning expense and further improve the infection levels.

Liquidity: Liquidity profile of SBL is adequate given the depositor granularity and liquid assets carried on the balance sheet. Liquid assets significantly grew by end 2016 and amount to Rs. 102.0b (2015: Rs. 87.5b). This growth has been driven through increase in deposits on the back of augmentation in current account. Proportion of saving accounts decreased as compared to prior year level while proportion of current accounts increased. Resultantly, CASA has improved to 73.8% (2015: 69.6%) at end 2016. Liquid assets to total deposits & borrowings (adjusted for repo) decreased marginally to 34.6% (2015: 35.4%) at end 2016.

Capitalization: Capitalization indicators of the Bank have slightly weakened on a timeline basis. Net equity (excluding surplus on revaluation of assets) of the bank amounted to Rs. 10.7b (2016: 10.6b; 2015: Rs. 10.8b) at end 1Q17. The net decline in equity base at end 2016 vis-à-vis preceding year was on account of loss incurred during the year despite increase in equity due to advance against capital amounting to Rs. 1,854.9m received during the year. Capital adequacy ratio (CAR) of the bank slightly increased to 10.10% at end 2016. The bank received regulatory relaxations from the SBP with regards to meeting CAR requirements and related deductions. The regulatory shortfall in CAR is expected to be resolved with the planned merger.

Profitability: Profitability of the bank declined in the outgoing year mainly on the back of higher provisioning, resulting in a loss before tax of Rs.1.9b (2015: Profit before tax Rs. 656.1m). Operating loss of the bank amounted to Rs. 1.2b (2015: Rs. 257m) for the year 2016. Increment in operating loss was due to both rise in operating costs and fall in recurring income. Although aggregate non-earning assets (NEAs) of the bank decreased at year-end 2016, yet the same remained on the higher side reducing the bank's earnings. However, management is actively making efforts to reduce NEAs for improvement in banks earnings. During 1Q17 operating loss decreased mainly on account of comparative improvement in operating income. The bank posted a profit after tax of Rs. 84.7m (1Q16: loss after tax of Rs. 649.3m). Despite challenging interest rate scenario, going forward, the overall profitability has been projected to improve on account of expected improvement in operating results and gain on sale on the partial disposal of a property held on the balance sheet of the bank.

ANNEXURE

S. No.	Name	Functional Title	Qualification	Brief Profile
1	**Ahmed Ali Larik**	Head Of Digital Banking	B.E	He has more than 10 years of experience in the field of IT & Digital Banking. He Started his career in 2007 from BankIslami Pakistan Ltd His last Assignment was with Meezan Bank Ltd as Product Manager Branchless Banking
2	**Om Parkash**	Unit Head Branch Banking & Support	M.A	He has 12 years of rich banking experience in the fields of Banking Operations He started his career in 2003 from MCB Bank limited. During his career he was also associated with the Atlas Bank (now merged into Summit Bank). His last assignment was with Soneri Bank as Regional Operations Manager.
3	**Brian D'Souza**	Head of Service Quality	MBA	He has 17 Years of Overall Experience in the field of Banking Operations. He started his career in 1996 from Citibank N.A. His Last Assignment was with Bank Alfalah Ltd as a Senior Manager.
4	**Muhammad Asim Maniar**	Senior Relationship Manager	MBA	He has 13 Years of Banking Experience in the fields of Banking Operations. He started his career in 2003 from NIB Bank Ltd. His last assignment was with Al Baraka Bank Ltd as a Team Leader.
5	**Prince Salman Ali Khan**	Unit Head	BBA (Hons.)	He has more than 14 years of rich experience. He started his career in 2002 from Citibank N.A. His last assignment was with Bank of Montreal as Financial Services Manager
6	**Mahwash Amer**	Head-Credit Risk Management	M.Sc	She has more than 17 years of experience. She started her career in 2000 from KSB Pumps Co. Ltd. Her last assignment was with PentaCan Inc. Toronto, Canada as Director & Consultant

Summit Bank Limited

Appendix I

FINANCIAL SUMMARY			*(amounts in Rs. Billions)*
BALANCE SHEET	**31st Dec'16**	**31st Dec'15**	**31st Dec'14**
Total Investments	90.6	78.2	45.5
Advances	79.8	70.6	66.5
Total Assets	215.0	188.4	148.5
Borrowings	49.8	49.8	25.3
Deposits & other accounts	142.9	119.9	105.3
Subordinated Loans	1.5	1.5	1.5
Tier-1 Equity	9.0	9.3	9.5
Net Worth *(Excluding Surplus on revaluation of assets)*	10.6	10.8	11.0
INCOME STATEMENT	**31st Dec'16**	**31st Dec'15**	**31st Dec'14**
Net Mark-up Income	2.77	3.05	2.43
Net Provisioning	1.88	1.58	0.56
Non-Markup Income	3.13	4.32	3.12
Operating Expenses	5.93	5.14	4.97
Profit Before Tax	(1.92)	0.66	0.01
Profit After Tax	(2.17)	0.22	0.23
RATIO ANALYSIS	**31st Dec'16**	**31st Dec'15**	**31st Dec'14**
Market Share (Advances) (%)	1.7%	1.7%	1.7%
Market Share (Deposits) (%)	1.3%	1.2%	1.2%
Gross Infection (%)	17.7%	20.7%	19.1%
Total Provisioning Coverage (%)	86.2%	73.0%	76.5%
Net Infection (%)	2.9%	6.6%	5.3%
Cost of deposits (%)	3.64%	4.61%	5.66%
Net NPLs to Tier-1 Capital (%)	26.1%	50.1%	36.9%
Capital Adequacy Ratio (C.A.R (%))	10.10%	10.02%	12.05%
Markup Spreads (%)	2.23%	2.88%	3.60%
Efficiency (%)	127%	105%	120%
ROAA (%)	-1.1%	0.1%	0.2%
ROAE (%)	-20.2%	2.0%	3.9%
Liquid Assets to Deposits & Borrowings (%)	34.6%	35.4%	34.4%

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		
6/30/2017	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		
6/30/2017	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.

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