Summit Bank Limited

DEFAULT NOTE

February, 2019

On 1st February 2019, JCR-VIS Credit Rating Company Limited (JCR-VIS) assigned a 'D' (Default) rating to the seven year listed TFC issued by Summit Bank Limited (SBL) due to non-payment of its latest markup payment on account of lock-in-clause being invoked by the State Bank of Pakistan (SBP). The TFC had previously been assigned a rating of 'BBB- (SO)' (Triple B Minus (Structured Obligation)) with 'Rating Watch-Negative' status in view of weakening in financial profile and delay in potential merger with another Commercial Bank. This rating action was announced on 23rd November 2018.

Rating assigned to the TFC issue of SBL had a payment guarantee (redemption shortfall undertaking) from the Chairman of SBL, Mr. Nasser Abdulla Hussain Lootah who is also the owner of the Bank's major sponsor – Suroor Investments Limited (SIL). Mr. Lootah had undertaken and committed to meet any shortfall in the redemption of the TFC in case any amount is not paid by the issuer. Incorporating this undertaking, the instrument was assigned an initial rating of 'A' (Single A) through announcement made on 1st April 2011. Given the undertaking described above, the instrument's rating was equated to the entity rating in terms of the applicable notching criteria.

The rating after being revised to 'A-' (Single A Minus) in June'2016 was further downgraded to 'BBB-' (Triple B Minus) in view of lock in clause being invoked and payment not being made on due date. However, the instrument had a 90 day grace period. While the TFC investors had agreed to an extension for a period of one year for the repayment of principal amount within the grace period and the Bank had received an in-principle approval of the same from SBP, mark-up payment of the same which was to be paid as per existing terms and conditions remained unpaid, therefore triggering a 'D' (Default) rating. It is also important to note that, the guarantee on the TFC not being adhered to under the redemption shortfall undertaking was one of the major reasons for the default.

Rating Transition

7-year Listed TFC of PKR 1.50 Billion			
Rating Date	**Medium to Long term Rating**	**Rating Outlook**	**Rating Action Type**
1-Apr-11	A (SO)	Rating Watch - Developing	Initial
19-Mar-12	A- (SO)	Stable	Downgrade
19-Jul-13	A- (SO)	Rating Watch - Developing	Maintained
30-Jun-14	A- (SO)	Rating Watch - Developing	Reaffirmed on Rating Watch
26-Dec-14	A (SO)	Stable	Upgrade
30-Jun-15	A (SO)	Stable	Reaffirmed
30-Jun-16	A-(SO)	Stable	Downgrade
30-Jun-17	A-(SO)	Rating Watch-Developing	Maintained
29-Jun-18	A-(SO)	Rating Watch-Developing	Reaffirmed
23-Nov-18	BBB-(SO)	Rating Watch-Negative	Downgrade
1-Feb-19	D	-	Default

JCR-VIS had assigned a preliminary rating of 'A' (Single A) to the subordinated debt issue of Rs. 1.5b, proposed to be issued by Summit Bank Limited (SBL) on 1st April 2011. As pointed out earlier, the instrument rating was equated with the entity rating given the personal guarantee of the Chairman of SBL. In June'2016, JCR-VIS downgraded the TFC rating of SBL to 'A-' (Single A Minus) from 'A' (Single A) on account of weakening in capitalization indicators and the continuing operating loss posted by the Bank. While the financial profile continued to remain weak, rating was placed on 'Rating Watch-Developing' Status in June'2017 due to planned merger with another Commercial Bank. The regulatory short fall in capitalization indicators were expected to be resolved with the completion of planned merger.

	Dec'2016	Dec'2017	March'2018
Net infection	2.9%	3.6%	4.5%
Net NPLs in relation to tier-1 equity	26%	60.3%	85.4%
Liquid Assets to deposits and borrowings	37%	35.3%	37.2%
Operational Efficiency	124.4%	126.9%	105.3%
ROAA	-1.1%	-0.5%	-0.6%
Tier 1 CAR	8.00%	4.1%	3.73%
Overall CAR	10.1%	5.01%	4.64%
Leverage	3%	1.7%	1.67%

Despite the delay in merger and further weakening in financial profile (as reflected by financial indicators on a timeline basis), the Rating Committee reaffirmed the ratings based on SBL's management's commitment (announcement was also made on the Pakistan Stock Exchange on June 27, 2018) that capital shortfall will be rectified through equity injection latest by December'2018 in case the merger transaction could not be completed. However, with increasing erosion of the Bank's franchise due to ongoing investigation initiated by the Federal Investigation Agency in Fake accounts case (Please refer to JCR-VIS's press release dated July 10, 2018), delay in merger pending regulatory and Supreme Court approval, persistent weakening in financial profile and lock-in-clause being invoked by the SBP on the TFC, JCR-VIS downgraded the rating of the TFC from 'A- (SO)' (Single A Minus) to 'BBB-' (Triple B Minus) on 23rd November 2018. Once the available grace period of 90 days expired the instrument was assigned a 'D' (Default) rating.

As per methodology, as soon as the instrument is restructured or outstanding interest is paid, rating shall be revisited provided the required information along with latest financials of the Bank are available in order to form an opinion on the future repayment capacity of the Bank.

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