

SONERI BANK LIMITED (SBL)

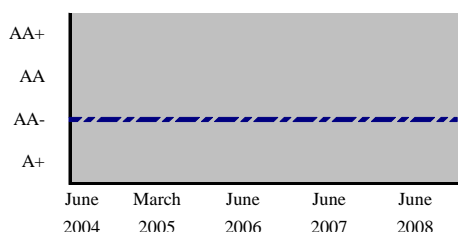
RATINGS (JUNE 2008)

SONERI BANK LIMITED

RATINGS

	New	Previous
Entity		
Long Term	AA-	AA-
Short Term	A1+	A1+
TFCs		
<i>Unsecured, listed</i>		
1 st Issue (PKR 1,200mln)	A+	A+

HISTORY – LT ENTITY RATING



FINANCIAL DATA

(Amounts in PKR mln)

	31-Dec-07	31-Dec-06
Total Assets	76,854.1	70,729.7
Equity	6229.7	5,194.3
Net Income	1,000.3	985.3
ROA (%)	1.3	1.4
ROE (%)	17.5	21.9
Equity / Total Assets (%)	8.1	7.3
SBP CAR (%)	12.3	13.3

ANALYSTS

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TFC ISSUE

SBL issued unsecured listed, subordinated TFCs of PKR 1.2bln for a tenor of 8 years in May 2005. The profit payment, to be made semi-annually in arrears, is based on 6 month KIBOR plus 160bps. The principal will be redeemed in four equal semi-annual installments starting from the 78th month (October 2011) from the issue date.

RATING RATIONALE AND KEY DRIVERS

- The ratings recognize the low risk appetite of SBL supplemented by prudent risk management as reflected by the consistently maintained good asset quality. However, at the same time, with its cautious stance towards growth, the bank is under pressure to maintain its relative position in the competitive and fast changing dynamics of the financial industry.
- The ratings are dependent on the bank's ability to evolve and implement a cogent business strategy to withstand the competition putting pressure on its respective market share and profitability. Meanwhile, improvement in the governance and control environment, and strengthening of the risk management systems in view of the difficult credit environment would remain critical.

ASSESSMENT

- SBL, over the years, has followed a prudent growth, though is putting persistent downward pressure on the bank's system share, which has remained less than 2. With a moderate growth in advances and deposits, largely in line with the system trend, and slight improvement in spreads, the net interest revenue exhibited YoY growth. The bank's comfortable advances-to-deposit ratio (07: 68.9%, 06:68.7%) largely remained intact. Meanwhile, the contribution of fee based income towards interest revenue remained healthy. The profitability is further augmented by capital gains on equity investments. Moreover, despite YoY increase in operating cost attributable to branch expansion, the bank's cost-to-net revenue was largely maintained. However, higher YoY provisioning expense due to change in regulatory provisioning criteria dampened the profitability. During 1Q08, the bank maintained its performance trend.
- Going forward, the management would continue to concentrate on its niche market of trade finance. SBL aims to achieve targeted growth by focusing on working capital requirements, with increasing focus on SME segment. The management is foreseeing no major swing in its advances to deposits pattern. Meanwhile, the management's stance towards consumer financing would continue to remain cautious, though the bank has developed a range of products. Moreover, SBL is expected to fund additional credit demand by mobilizing retail deposits with planned expansion in network outreach (2008 new branches: 28).
- SBL, unlike most banks acquiring internationally established core banking software, is in the process of implementing software, which it has developed in collaboration with a local technology firm. The bank so far has implemented new banking software at more than half of its branches, and is targeting full transition within 2008. The management, given relatively small size of the bank's operation and strong IT team, is confident of developing a technology infrastructure capable of improving efficiency, while strengthening the risk management framework.
- Over the years, SBL's asset quality has remained outstanding with negligible infection. Although there was modest increase in infection during 2007, mainly emanating from textile sector, the proportion of NPLs to gross finances (end-March 08: 2.1%) still remained at a low level. Given the management's low risk stance and recovery efforts, asset quality is expected to remain intact. Considering the relatively higher exposure in the textile sectors, which is losing its competitive positioning internationally, the management is pursuing growth in other sectors, particularly oil & gas, telecom, cement, and leather, also reflected by declining trend in textile exposure (end-06: 38%, 07: 32%).

- SBL investment portfolio is dominant by highly liquid short-term government treasury bills and fixed income mutual funds thereby implying low interest rate risk. Meanwhile, the exposure to equity investments remains low.

- SBL has sound capitalization level, providing ample room for future growth. The bank, supported by its profitability, is comfortably placed to meet increasing absolute regulatory capital requirements.

PROFILE

- Established in 1992 and listed on all exchanges, SBL has gradually extended its network to 89 branches including four Islamic branches offering shariah compliant products. The Feerasta family, owners of the Rupali group, holds the controlling stake in the bank mainly through different trusts of the family. The group's primary activities are centered on the synthetic textile industry.
- Mr. Safarali K. Lakhani, the CEO, has over four decades of domestic and international banking experience, and is associated with SBL since its inception. He is assisted by a team of experienced professionals. The bank has witnessed a fair degree of stability at top management level over the years.