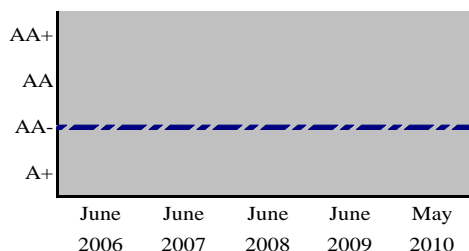


**RATINGS (MAY 2010)**
**SONERI BANK LIMITED**

	NEW	PREVIOUS
<b>Entity</b>		
Long Term	AA-	AA-
Short Term	A1+	A1+
<b>Instrument (TFCs)</b>		
(Listed, Unsecured, Subordinated)	A+	A+
PKR 1,200mln		

**HISTORY – LT ENTITY RATING**

**FINANCIAL DATA**
*(Amounts in PKR mln)*

	31-Mar10	31-Dec09	31-Dec08
Total Assets	97,986.6	95,310.3	80,977.3
Equity	8,243.4	7,181.6	6,965.7
Net Income	40.4	145.4	701.0
ROA (%)	0.2	0.2	0.9
ROE (%)	2.1	2.1	10.6
Equity /			
Total	8.4	7.5	8.6
Assets (%)			
CAR (%)	13.6	12.8	12.6

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**PROFILE**

- SBL, established in 1992 and listed on all stock exchanges in the country, has gradually extended its network to 154 branches including six Islamic branches offering shariah compliant products. The Feerasta family, owners of the Rupali group, with main interests in synthetic textile industry, holds the controlling stake (~52%) in the bank through three trusts of the family.
- The eight-member BoD of SBL, with diversified experience, is a key source of guidance for the management. Mr. Safarali K. Lakhani, the CEO of the bank since inception, has over four decades of domestic and international banking experience. He is supported by a team of experienced professionals.
- Going forward, any improvement in profitability would require expansion in spreads and let up in NPLs.

**RATING RATIONALE AND KEY DRIVERS**

- The ratings reflect SBL's modest but largely stable system share with focus on gradual network expansion, improving risk management function, and broadening asset base in line with its conservative business strategy. However, lately, SBL witnessed significant deterioration in asset quality, mainly on account of the weak socio-economic environment, despite its cautious credit expansion policy. Resultantly, the bank's profitability declined considerably. Nevertheless, the bank maintains good liquidity profile and adequate risk absorption capacity.
- The ratings are dependent upon the bank's ability to arrest the increasing trend in NPLs while strengthening its relative positioning in the banking industry. Meanwhile, establishing strong internal controls in line with the growing loan book would remain critical. Any significant weakening in asset quality, in turn, diluting the bank's risk absorption capacity, may negatively impact the ratings.

**ASSESSMENT**

- The global financial crisis impacted the Pakistani economy with a lagged effect. Although certain macroeconomic indicators have witnessed improvement, chronic power crisis, inflationary pressure and adverse law and order situation in the country have continued to affect the overall economic activity. This has also been reflected in weakening of the asset quality of banks in 2008 and 2009. Even though the pace of accumulation of NPLs has stalled lately, it would be challenging for the banks to hold the asset quality amidst the uncertainties regarding recovery prospects in subdued business environment.
- SBL's finances witnessed a nominal increase of 5.4% in 2009. The major contribution in the bank's advances portfolio remained from the corporate sector (09: 79%, 08: 82%), followed by SME (09: 14%, 08: 15%) and others (7%). During the year, SBL had a high focus on deposit mobilization, increasing its deposit base by 19%. Deposit mix has changed in the favor of high cost time deposits. Keeping in view the size of the bank, the deposits concentration is moderate with top 20 exposures comprising around 21% of the total deposits at end-Dec09. The finances-to-deposit ratio registered a decrease on account of increase in the deposit base and stagnation in the advances portfolio reflecting the cautious growth stance of the bank. The ratio was maintained in 1Q10 (finances to deposits; Mar10: 71%, Dec09: 71%, Dec08: 79%).
- The bank's spreads declined on account of higher cost of funds as a result of adverse change in deposit mix. Despite availing FSV benefit of PKR 866mln in 2009 (Mar10: PKR 496mln), the bank's absolute reported profitability registered significant reduction on account of higher provisioning. During 1Q10, the drag of provisioning continued, impeding any improvement in the profitability.
- During the year, the asset quality of the bank deteriorated significantly (NPLs to gross finances; end-Mar10: 9.5%, Dec09: 9.6%, Dec08: 6.5%) with NPLs witnessing an absolute reported increase of ~57% (09: PKR 5bln, 08: PKR 3bln). The bank has highest exposure (40% of total advances) in the textile sector. Consequently, textile sector is the largest contributor in NPLs (61%) of the bank. The management is cognizant of the dire situation and has beefed up recovery efforts. Any further deterioration in asset quality would negatively impact the bank's risk absorption capacity.
- Going forward, the management plans to take a cautious growth stance and is not foreseeing any major swing in its advances to deposits pattern in the near term. The bank plans to increase its branch network to 200 from the existing 154 by 2011 which would help in mobilizing low cost funds. In this regard, the bank intends to tap the agricultural and SME sectors. Furthermore, the bank has developed a range of consumer products but intends to penetrate in this area relatively slowly. SBL plans to launch mobile banking for its customers in the current year.
- The bank is implementing SAS software which will supplement SBL in achieving timely compliance of Basel II. Apart from SAS, the management is employing various other efforts to strengthen its risk management systems.
- The investment portfolio of SBL is dominated by highly liquid market treasury bills and fixed income mutual funds thereby implying low market risk. Meanwhile, the exposure to equity investments remains low.
- SBL has maintained sound CAR, which is well above the regulatory requirement. Meanwhile, sponsor support, would remain critical. This is important given limited internal generation putting pressure on the bank's capital structure and otherwise increasing capital requirement by the regulator.

**TFC ISSUE**

- SBL issued an unsecured, listed and subordinated TFC of PKR 1.2bln for a tenor of 8 years in May05. The profit is being paid semi-annually in arrears, based on 6 month KIBOR plus 160bps. The principal will be redeemed in four equal semi-annual installments starting from the 78th month (Nov11).

