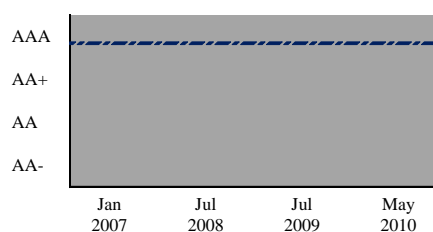


RATINGS (JUNE 2010)
**STANDARD CHARTERED BANK
(PAKISTAN) LIMITED (SCBPL)**

	New	Previous
Entity		
Long-Term	AAA	AAA
Short-Term	A1+	A1+
TFCs Issue		
2nd Issue PKR	AAA	AAA
750mln		
3rd Issue PKR	AAA	AAA
1000mln		

LT RATING HISTORY

FINANCIAL DATA

PKR in mln

	Mar- 10*	Dec -09	Dec -08
Total Assets	315,532	312,874	264,617
Equity	45,478	44,665	44,010
Net Income	810	669	677
ROA%	0.3	0.2	0.3
ROE%	1.8	1.5	1.6
Equity/Total Assets %	14.4	14.3	16.6
SBP CAR%	11.9	11.6	10.0

*Based on unaudited results for three months

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TFC ISSUES

SCBP has two listed unsecured subordinated TFCs outstanding - 2nd Issue and 3rd Issue. The bank issued its second unsecured subordinate TFCs (PKR 750mln) for a tenor of 7 years during January 2004. The profit payment is at a floating rate of latest cut-off yield of 5 years PIB plus 75bps with a floor of 5% and a cap of 10.75%. The major principal redemption commenced from February 2006 and will be in six unequal installments. The third TFC of PKR 1,000 million was issued in January 2006, for 7-year tenor, with profit payable at a floating interest rate of 6-months KIBOR + 2%. Principal redemption will be in six unequal installments, commencing from the August 2010.

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect SCBP's strong association with a reputed international bank – Standard Chartered Bank UK (SCB) – having presence in prominent emerging markets. Lately, SCBP witnessed a notable increase in impaired loans, which in turn impacted the bottom line in the form of high provisioning expense. Nevertheless, the bank maintained its market position, a result of its sound financial profile, established franchise, healthy spreads, and quality human resource. The bank continues to benefit from the technical resources and cumulative expertise developed at the group level, strong oversight by the board, and increasing integration of group level risk management systems and processes.
- The bank's ability to sustain its relative positioning in the sector, while arresting the infection in asset quality and exercising prudent control over the risk profile of the bank would remain important.

ASSESSMENT

- Recent years proved to be very challenging for the whole banking industry, where the global downturn impacted the Pakistani economy with a lagged effect. While the demand of new loans dried up, the quality of existing loan book of banks continued to weaken. Although certain macroeconomic indicators have improved, chronic power crisis, stubborn inflationary pressure, and adverse law and order situation continue to affect the overall economic activity. The pace of accumulation of NPLs has stalled lately but it would be challenging for the banks to maintain asset quality amidst uncertainties regarding the recovery prospects and subdued business environment.
- There has been a shift in SCBP's business from consumer banking to wholesale banking in recent years, though mainly driven by stalled expansion in consumer and SME segments. This was accentuated by high delinquency rate in these segments. The change has led to an increased concentration of corporate sector advances in the business mix (CY09:72%, CY08:62%). Beside this shift in loan book, the bank maintained the status quo in growth in total assets and system share.
- The bank's cautious stance in lending has resulted in reduced growth in advances (2.6% in 2009) and resultantly net interest income remaining largely at last year's level. Lately, the bank's spreads have decreased mainly on account of the minimum saving deposit rate requirement prescribed by SBP. Nevertheless, the bank maintains one of the highest spreads (CY09: 7.6%, CY08:8.9%) in the sector mainly owing to lower funding cost that signifies the bank's strong brand image in the deposit market.
- SCBPL managed to control its cost structure by realigning some of its branches and rationalizing its staffing requirements. However, profitability in 2009 took a hard hit owing to higher provisioning expense and sizeable direct write-off of PKR 2.8bln. SCBPL reported bottom line was supported by FSV benefit of PKR 750 mln in 2009 (1Q10:PKR 754 mln). During 1QCY10, the bank to some extent has managed to control the infection rate in the loan portfolio. Profitability also improved significantly due to the lower provisioning expense.
- Going forward, the bank foresees enhanced revenue potential in wholesale banking through targeting its premium clientele and payroll customers for growth in low cost deposits, while at the same time extending transaction related services which is expected to help in enhancing fee-based income, and hence profitability. In addition, the bank would be observing a more prudent lending strategy in case of consumer and SME segments.
- Non Performing Loans (NPLs) have lately emerged as a key issue for the bank, particularly consumer and textile loans got a major hit. NPLs as a percentage of gross advances increased to 15% at end-Dec09 (CY08: 12%, CY07: 8%). In 2009, NPL mix stood at 61:17:22 between wholesale banking, consumer business, and SME loans respectively. The concentration of top twenty funded exposures of the bank has increased to 31% (CY08:25%) of the loan book, which is relatively high. At the same time, the sector concentration is dominated by Textile (16%) and Energy (including Oil and Gas) sectors (16%) respectively.
- SCB, as a policy, monitors and manages risk on a group wide basis. In addition, a proactive and customized risk management framework is adopted, employing stronger systems and controls. Risk based pricing is in place for the entire wholesale banking portfolio, while the consumer banking portfolio is extensively checked at regular intervals for existing and potential delinquency.
- Liquidity management in 2009 largely mirrored that of the whole banking industry, where fresh deposits were deployed in government securities, mainly T-bills. This significant increase in government securities would help the bank in managing the liquidity profile at strong level.
- The bank has one of the highest reported capitalization levels in the sector. However, it is not reflected in CAR (CY09: 11.6%; CY08:10%), as the bulk of the equity represents goodwill. The bank also revalued its fixed assets in CY09 resulting in overall increase in eligible regulatory capital. Going forward, improvement in equity base through profit retention would remain important, thereby building room for further growth.

PROFILE

- SCBPL, a subsidiary (99% owned) of Standard Chartered Bank, UK, was incorporated in Pakistan in Jul06. The bank is currently 7th largest bank in the industry in terms of assets. The bank is currently operating through 162 branches spread over 41 cities. The holding company for the Standard Chartered Group is Standard Chartered, UK. Standard Chartered has a history of over 150 years (in subcontinent since 1858) in banking and operates in world's emerging markets with an extensive global network of over 1,700 branches. SCB, UK carries an international rating of 'A+' by Fitch whereas Standard & Poor's has assigned the same with a negative outlook.
- Mr. Mohsin Nathani will replace Mr. Badar Kazami CEO of SCBPL in September 2010. Mr. Nathani carries a diverse national and international experience. The board comprises three independent directors and three are nominees of SCB and the Chief Executive Officer. The seven-member BoD of the bank is diverse in terms of experience and background and provides strong guidance to the management.