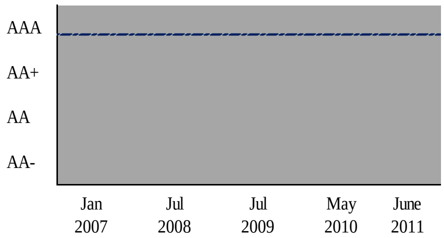
RATINGS (JUNE 2011)
STANDARD CHARTERED BANK (PAKISTAN) LIMITED (SCBPL)

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

LT RATING HISTORY



FINANCIAL DATA

PKR in mln

	Mar- 11*	Dec -10	Dec -09
Total Assets	341,002	321,923	312,874
Equity	46,895	48,100	44,665
Net Income	1,154	3,606	669
ROA%	1.39	1.14	0.2
ROE%	9.72	7.77	1.5
Equity/Total Assets %	14.8	14.9	14.3
SBP CAR%	-	12.2	11.6

**Based on unaudited results for three months*

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect SCBPL's association with a financially sound and reputed international bank - Standard Chartered Bank PLC, (SCB PLC). This is supplemented by SCBPL's established brand equity in domestic market (i.e. Pakistan), quality management team, and healthy spreads. In the recent years, the bank has faced the heat of subdued economic environment, wherein the quality of its assets – mainly consumer – suffered. However, lately the rising trend has been arrested, ably reflected in enhanced profitability of the bank. SCBPL continues to benefit from the technical resources and cumulative expertise developed at the group level.
- The ratings are dependent on the management's ability to foster the bank's relative positioning in the sector with prudent control over the associated risks. Meanwhile, insulating the bank from any material deterioration in asset quality, in turn, impacting its performance would remain challenging.

ASSESSMENT

- The macroeconomic landscape of Pakistan remains uncertain. Although a few indicators have improved as reflected in current account surplus of the country, prolonged energy crisis, stubborn inflationary pressures, and burgeoning fiscal imbalance continue to pose major challenges to economic growth. This is also reflected in continuing weakening in the asset quality of the banks. The pace of accumulation of NPLs has stalled lately, but it would be challenging for the banks to maintain asset quality amidst subdued business sentiments.
- During 2010, the bank's advances portfolio witnessed an increase of 12% with the management's enhanced focus towards wholesale banking. The overall exposure in terms of sectoral distribution remained concentrated towards textile (20%) and power (19%). Owing to the bank's sound franchise and established brand, it observed 18% expansion in low cost deposits (CASA – 2010: 79%, 2009: 71%). The overall growth in deposit base was lower (6%), due to shedding of high cost deposits. Moreover, SCBPL has a diversified deposit base, as major contribution (70%) comes from depositors having less than PKR 50mln share in the total deposit mix.
- SCBPL was able to sustain its net interest revenue during 2010 despite gradual change in the mix of carrying assets to fine margin corporate from high margin consumers. Although, the bank's asset yield slightly declined, though the spread was largely maintained, attributed to rationalization in cost of deposits. Non-fund income especially credit card fee and trade related fees & commissions, continued to support the overall revenues. This was complemented by a sizeable income from dealing in foreign currencies though slightly lower on YoY basis. Despite inflationary pressure, the bank sustained its operating cost structure, also supported by rationalization of branch network. Nevertheless, a sharp decline of more than 50% YoY in the overall provisioning expense helped in boosting the bank's profitability. During 1Q11, the bank has been able to further restrict provisioning expense, reporting healthy profitability.
- Going forward, the bank plans to continue focusing on wholesale banking with major emphasis on tapping Tier I clientele. The main area of consumer banking would be mobilization of low cost deposits. This would offset the impact of low asset yield from premium clients. Moreover, gradual enhancement of advances to deposit ratio would further strengthen the net interest revenue. Although SCBPL's outreach is not expected to witness any expansion, some rationalization in the network is likely.
- The bank's NPLs to gross advances ratio improved from 15% to 14% in 2010, attributed to sizeable increase in the advances, slightly outpacing increase in the nonperforming portfolio. Moreover, the bank's loss coverage ratio is strong at 84%, given significant provisioning made on a continuous basis. Although the shift towards corporate lending has reduced proportion of non-collateralized advances, the per party exposure is likely to increase. This is evidenced in the concentration of top twenty funded exposures, which have increased to 47% during 2010 (CY09:31%). In the wake of weak socio-economic environment, corporate segment is likely to remain under stress.
- SCBPL's investments of PKR 87bln constitute ~25% of total assets at end-Mar11. The portfolio is majorly dominated by T-bills (84%), signifying low credit and market risk, and PIBs (12%). Apart from a nominal strategic portfolio, the rest is represented by bonds of different govt. entities (4%).
- The bank has one of the highest reported capitalization levels in the sector. However, it is not reflected in CAR (CY10: 12.2%; CY09:11.5%), as the bulk of the equity represents goodwill. The increase in the CAR is on account of improvement in equity base through profit retention. Going forward, the bank intends to keep the same extent of cushion in the CAR.

PROFILE

- SCBPL, a subsidiary (99% owned) of Standard Chartered Bank PLC, 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 144 branches spread over 33 cities. SCBPL is owned in majority by Standard Chartered PLC. The group has a network of 1700 offices with an employee base of 75,000 in 70 countries. Standard Chartered PLC, the main operating entity of the Standard Chartered Group, is rated A+ by both Fitch and Standard & Poor's.
- Mr. Mohsin Ali Nathani, joined SCBPL as the CEO in Sep2010. He carries over 22 years of extensive local and international banking experience. Prior to joining SCBPL he was heading Barclays bank's Pakistan operations. The board comprises three independent directors and three nominees of SC and the Chief Executive Officer. The seven-member BoD of the bank is diverse in terms of experience and background. During 2010, Mr. Christos Papadopoulos was elected as the new Chairman. SCBPL is well entrenched into SC Group's network. All key departments have matrix reporting line into the group.

TFC ISSUES

SCBPL currently has one listed unsecured subordinated TFCs outstanding - 3rd Issue. The third TFC of PKR 1,000 million was issued in February 2006, for 7-year tenor, with profit payable at a floating interest rate of 6-months KIBOR + 2%. While nominal principal redemtion started in Aug06, major repayments have begun from Aug10. The instrument will be fully redeemed by 2013.