

RATINGS (JUNE 2011)
SONERI BANK LIMITED

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

HISTORY – LT ENTITY RATING

AA+					
AA					
AA-					
A+					
	June 2007	June 2008	June 2009	May 2010	Jun 2011

FINANCIAL DATA
(Amounts in PKR mln)

	31-Mar-11*	31-Dec10	31-Dec09
Total Assets	114,676	108,106	95,310
Equity	8,702	8,381	7,181
Net Income	303	125	145
ROA (%)	1.1	0.5	0.2
ROE (%)	14.2	6.1	2.1
Equity /Total Assets (%)	7.6	7.8	7.5
CAR (%)	10.9	12.6	12.8

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PROFILE

- SBL, established in 1992 and listed on all stock exchanges in the country, has gradually extended its network to 184 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. Lately, SBL initiated a bank-wide organizational restructuring to strengthen itself against ensuing challenges. Mr. Aftab Manzoor, a seasoned banker, has recently joined as the chief executive of the bank. He has around three decades of domestic and international banking experience. A diverse team of young individuals and SBL's veterans assists him.

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect SBL's gradual, yet modest increase in system share, while improving the risk management infrastructure of the bank. The ratings also recognize recent reorganization of the bank to emerge as a modern and technology oriented bank, in turn, supporting its plans to enhance participation in transactional trade financing and low cost deposit mobilization. However, despite its cautious credit expansion policy, SBL witnessed significant deterioration in asset quality, mainly on account of weak socio-economic environment. Cognizant of this, the management is making recovery efforts against existing infected portfolio. Nevertheless, the bank maintains good liquidity profile and adequate risk absorption capacity.
- The ratings are dependent upon the bank's ability to sustain its lately improved business performance, while keeping asset quality under control. 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. Development of a cohesive team while accruing the desired benefits from recent changes in organizational structure would remain important.

ASSESSMENT

- During 2010, SBL's finances grew in line with the banking industry trend (growth in advances~12% in CY10). The major contribution in the bank's advances portfolio originated from the corporate sector; reflected in increased proportion in advances book (CY10: 83%; CY09: 79%), followed by SME (CY10: 13%; CY09: 14%) and others (4%). The growth was primarily fueled from expansion in relatively low cost CASA deposits (~20%). The bank continued to build the investment portfolio, mainly Treasury securities. Meanwhile, the finances-to-deposit ratio maintained the status quo reflecting the cautious growth stance of the bank.
- Despite a decrease in asset yield, a result of suspended interest income from non-performing loans, the bank was able to keep its spreads intact. This is mainly due to shedding of high cost deposits and replacement of the same with relatively low cost deposits. Meanwhile, operating cost went up significantly owing to ongoing network expansion and, in part, also due to higher personnel cost linked to organizational restructuring. At the same time, overall profitability was hampered owing to high provisioning against impaired loans despite availing FSV benefit of PKR 1,083mln in 2010 (Dec10: PKR 866mln).
- SBL's 1Q performance improved considerably on account of a) improvement in net interest income and spreads, b) reversals of provisions against diminution in value of investments, c) relatively low pressure of provisioning, and significant increase in non-fund based income. The bank's key focus remains on deposit mobilization and transactional banking while targeting a quality growth in loan book. In this context, ability of the bank to sustain the improvement in performance while cautiously monitoring the related risks would remain important.
- In the recent period, the asset quality of the bank weakened significantly (NPLs to gross finances; end-Mar11: 11.6%, Dec10: 11.9%, Dec09: 9.6%) with NPLs witnessing an absolute reported increase of ~42% (09: 54%). The bank has the highest exposure (37% of total advances) in the textile sector. Consequently, textile sector is the largest contributor in NPLs (53%) of the bank. At the same time, top 20 NPLs constitute the majority of impaired portfolio (72%). The management is cognizant of the dire situation and has beefed up recovery efforts. Any further deterioration in asset quality may impact the bank's risk absorption capacity.
- 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. The liquidity of the bank is strong as reflected in liquid assets as percentage of total deposits and borrowing (33% at end Mar-11). Concentration of top twenty deposits also remains modest (17% at end Mar-11)
- SBL has maintained sound CAR, which, lately with expansion in risk assets and depleting Tier II, has experienced reduction. The recent right issue announced by the bank is expected to improve the capital adequacy. Nevertheless, given limited internal generation by the bank and otherwise increasing capital requirement by the regulator, continuous support of the key sponsor would remain critical.

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).