

SILKBANK LIMITED

July 1, 2014

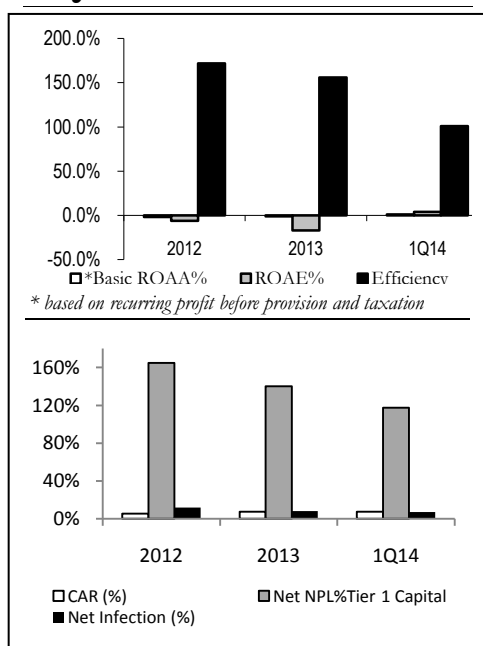
Chairman: Mr. Munnawar Hamid OBE; President & CEO: Mr. Azmat Tarin

Analysts: Talha Iqbal
 Mohammad Arsal Ayub

Category	Latest*	Previous
Entity	A-/A-2 Jun 30, '14	A-/A-2 Jun 29, '13
Outlook	N/A	Stable Jun 29, '13

Placed under Rating Watch-Developing status

Key Financial Trends



	2012	2013	1Q14
Total Assets (Rs. In b)	89.1	91.8	96.3
Net Advances (Rs. in b)	49.0	56.1	56.2
Deposits (Rs.in b)	69.1	69.4	73.0
Market Share (%)	1.0	0.8	
Deposit Cost (%)	7.5	6.0	6.0
Profit / (Loss) (Rs.in m)	(344)	(1,157)	67
Equity (Rs. in b)	5.4	6.7	6.8
CAR (%)	5.7	7.7	7.6
Liquid Assets % Deposits & Borrowings	26%	24%	
Net Infection (%)	12.1	8.4%	7.2%

Rating Rationale

In 2013, Silkbank Limited (SBL) incurred loss before tax of Rs. 1.5b on account of higher provisioning charge. During 1Q14, operational losses were marginalized and bottom line was positive. For FY14, the management has projected net profit before tax of Rs. 516m. Future profitability depends on continuing efforts towards strategic initiatives taken earlier by the bank and capitalization level.

Issuance of convertible preference shares in 2013, considered eligible for Capital Adequacy Ratio (CAR) calculation, improved CAR to 7.7% (6.93% as per transitional Basel 3 criteria); applicable regulatory requirement is 10%. With losses incurred in 2013, the capital eligible for Minimum Capital Requirement (MCR) reduced to Rs. 3.9b vis-à-vis regulatory requirement of Rs. 10b. Management has indicated that developments are on-going to bring in fresh capital. Stress on profitability and in turn capitalization may arise if the bank is not able to achieve compliance with MCR and CAR requirements, and any further losses that the bank may incur.

A shift has been seen in the deposit mix from fixed/term deposits to saving & current accounts. Although this has resulted in a larger maturity mismatch in the 1-month bucket, the impact on cost of funds has been favorable. Moreover, SBL's deposit concentration has improved with top-10 deposits comprising 14% (2012: 18%) of the total deposits at year-end. The management is targeting deposits of Rs. 83b by end-2014, with end-1Q14 deposits balance standing at Rs. 73b (2013: Rs. 69b). Liquidity indicators of the bank have room for further improvement.

There has been a decline in non-earning assets over time. So far, corporate segment had been the mainstay of the bank's lending operations; growth was witnessed in the SME segment while high yielding consumer loan book almost doubled during 2013. To improve spreads, the bank has deliberately taken exposure against clients where yields tend to be higher. The management continues to actively pursue recoveries, while also trying to reduce exposure against weak counterparties. Resultantly, asset quality indicators have witnessed improvement on a timeline basis.

Given the limited room for growth on account of capital constraints, growth strategy in corporate portfolio may be limited to transaction based business while growth in high yielding consumer banking portfolio will be pursued. Infection level is relatively on the higher side in some of the SME products. Asset quality trends will continue to be closely monitored by JCR-VIS for impact on the bank's risk profile.

Overview of the Institution

SBL is listed on all three stock exchanges of Pakistan. International Finance Corporation, Nomura European Investment Limited, Bank Muscat S.A.O.G and executives of Sinthos Capital Advisors Limited had aggregate share of 82.4% in the bank at end-Dec'13. External auditors of the bank for 2013 were M/s Deloitte Yousuf Adil Saleem & Co. Chartered Accountants. The same auditors have been appointed for 2014. JCR-VIS

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: ENTITY</u>				
30-Jun-14	A-	Rating Watch – Developing	A-2	Rating Watch – Developing
29-Jun-13	A-	Stable	A-2	Maintained
22-Oct-12	A-	Rating Watch – Developing	A-3	Maintained
18-Aug-11	A-	Rating Watch – Developing	A-2	Reaffirmed
25-Feb-11	A-	Rating Watch – Developing	A-2	Maintained
05-Aug-13	A-		A-2	Rating Watch - Positive