

**Soneri Bank**

SBL/Secy/PSX/16/183  
19 December 2016

The General Manager  
Pakistan Stock Exchange Limited  
Stock Exchange Building  
Stock Exchange Road  
Karachi.

Subject: Semi-annual rating of TFC- II of Soneri Bank Limited

Dear Sir,

We are writing with reference to captioned subject.

In this regard, we are pleased to enclose herewith attested copy of the semi-annual rating report issued by the Pakistan Credit Rating Agency Limited in compliance of special condition No.3 imposed by the Securities & Exchange Commission of Pakistan levied vide their letter No. SMD/Co.57(1)/04/2015 dated 12.06.2015.

Thanking you,

Yours truly,

**Muhammad Altaf Butt**  
*Company Secretary*

Encls: a.a.



**THE PAKISTAN CREDIT RATING AGENCY LIMITED**

NL FY - 17 - 127

**Mr. Aftab Manzoor**  
CEO  
Soneri Bank Limited  
Karachi

Confidential  
Dec 16, 2016

**SONERI BANK LIMITED**  
**RATINGS | UPDATE**

Dear Mr. Manzoor

This is with the reference to Ratings of Soneri Bank Limited. PACRA has updated its opinions, following are the respective details.

Opinion	Action	Rating				Outlook	Opinion Type
		Long Term		Short Term			
		Current	Previous	Current	Previous		
Soneri Bank Limited   TFC II   Jul-15	Maintain	A+	A+	-	-	Stable	Debt Instrument

Yours sincerely

*Shahzad Saleem*

(Shahzad Saleem)  
Chief Operating Officer

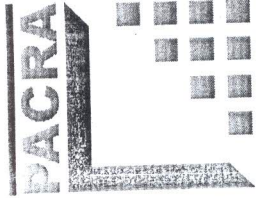
Encl: 1) Press Release  
2) Report

**ATTESTED**

**Soneri Bank Limited**

*Qud*  
**Muhammad Altaf Butt**  
Company Secretary

*19/12/2016*



The Pakistan Credit Rating Agency Limited

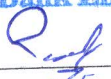
## SONERI BANK LIMITED

TFCs Issue (Unsecured, Subordinated)	New [Dec-16]	Previous [Jun-16]
TFCs (PKR 3,000mln)	A+	A+

### REPORT CONTENTS

1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

**ATTESTED**  
**Soneri Bank Limited**

  
**Muhammad Altaf Butt**  
Company Secretary  
19/12/2016

DECEMBER 2016



**Profile & Ownership**

- Soneri Bank Limited (SBL), incorporated in Sep91, is a small size commercial bank having 1.8% deposit share in the system at end-Sep16
- Operating with a network of 281 branches and 295 ATMs across the country
- Feerasta Family – sponsors of Rupali Group – holds controlling stake (~58%), followed by NIT (~11%), while rest is spread across general public and others

**Governance & Management**

- Eight member board including the President. Out of remaining two directors represent Feerasta Family, two are NIT nominees, while three are independent members
- Experienced management team; operations divided into thirteen functions
- The President and CEO, Mr. Aftab Manzoor, carries over three decades of international banking experience; supported by COO, Mr. Amin A. Feerasta

**Risk Management**

- Migration of Temonos (T24) – core banking system – expected to start by Jul17
- During 9MCY16, earnings assets increased by ~5% mainly driven by rise in investment book. Lending portfolio declined by 11% to PKR 96bln. Sectoral concentration remained high (top 3 sectors comprising more than half of advances) 9MCY16: 53% (CY15: 59%), with textile at top (22%); Top-20 private performing clients' concentration inched down (9MCY16: 26%, 9MCY15: 29%) – on account of cautious lending
- The bank's advances to deposit ratio dropped to ~49% at 9MCY16 (9MCY15 57%) – at par with industry
- During 9MCY16, asset quality largely maintained; infection ratio – NPLs to gross advances (end-Sep16: 10%) remained same – mainly due to decrease in NPLs and advances. Nevertheless, due to nominal provisioning (due to reversals), the banks' loan loss coverage ratio improved (end-Sep16: 78%, end-Dec15: 74%)
- At end-Sep16, investment portfolio, comprising 52% of earning assets, (witnessed ~14% growth); dominated by government securities (98%) – mix (T-Bills: 43%, PIBs: 55%) change in favor of T-Bills

**Business Risk**

- In line with industry, performance remained subdued; NIMR registered 6% YoY decrease despite volumetric increase in earning assets. Asset yield decreased YoY – at par with industry – on account of lower benchmark rates. Cost of funds declined but wasn't significant to secure spread. Hence Spread reduced to 3.1% (9MCY15: 3.9%)
- Non-markup income stood at PKR 2.1bln (9% decrease). During 9MCY16, cost to total net revenue increased to 65% (CY15: 57%) primarily due to addition of new branches
- During 9MCY16, the bank posted net profit (PKR 1.5bln; down 3%)

**Capital & Funding**

- Deposits increased by ~9% YoY with an addition of PKR 16bln; CASA slightly improved (end-Sep16: ~72%, end-Dec15: 69%)
- Top-20 depositors' concentration significantly increased to 25% (CY15: 19%), due to increase in ticket size
- Overall liquidity position strengthened due to continuous rise in liquid investments; Capitalization remained healthy with CAR standing at 15.4% at end-Sep16

**TFC Issue**

- SBL issued 2nd subordinated, unsecured, and listed TFC of PKR 3,000mln in Jul15 having a tenor of eight years. Profit rate is 6MK plus 135bps p.a. payable semi-annually in arrears. Principal repayment (99.7%) would be in bullet form at maturity (2023). SBL retains call option; exercisable in Jul20
- The issue carries a lock-in clause that stops payment if SBL falls below MCR. The instrument is also subject to loss absorbency
- Cushion to loss absorbency ranges from ~3% to ~5%, incorporating the projections

**RATING RATIONALE**

The rating reflects SBL's maintained business profile as the bank managed to hold its system share in deposits (1.8%). Despite YoY volumetric rise in earning assets, mainly on account of surge in investment portfolio, the spreads came under pressure – a phenomenon witnessed industry-wide on the back of lower prevailing interest rates. The management strives to reduce costs of funds through mobilization of current deposits; material progress remains to be seen. The management's strategy incorporates increase in advances; however, the bank remains cautious towards private sector lending. Hence, net advances witnessed shrinkage during 9MCY16. Fresh accretion in NPLs is limited. Thus asset quality was largely maintained. Deposits grew by 9%; however, concentration in top-20 depositors inched up, warranting management's attention. The bank maintained sound liquidity and good risk absorption capacity. The overall CAR has come down to 15% at end-Sep16 (end-Sep15: ~17%), a factor of rise in risk weighted assets. As part of strategy, the management intends to increase the proportion of high-quality assets in its overall mix. While it may compromise bottom-line performance, it is likely to have a positive impact on CAR.

**KEY RATING DRIVERS**

The rating is dependent on the bank's ability to maintain its market position in the industry while strengthening its overall risk profile. Bringing efficiency in overall operational structure is important to rationalize costs. In comparative landscape, adding granularity to core operations - deposits and advances - is critical. Meanwhile, increase in system share would be ratings positive.





The Pakistan Credit Rating Agency Limited  
Soneri Bank Limited

	30-Sep-16	31-Dec-15	31-Dec-14	31-Dec-13
PKR mln				
<b>BALANCE SHEET</b>				
<b>Earning Assets</b>				
Advances (Net of NPL)	96,305	109,033	105,389	94,249
Debt Instruments	3,626	2,304	1,471	854
Total Finances	99,931	111,337	106,861	95,103
Investments	121,181	106,542	74,244	45,844
Others	10,737	4,514	905	3,471
	<u>231,849</u>	<u>222,393</u>	<u>182,010</u>	<u>144,418</u>
<b>Non Earning Assets</b>				
Non-Earning Cash	18,486	16,932	16,050	12,897
Deferred Tax	-	-	-	103
Net Non-Performing Finances	2,301	2,969	2,579	3,290
Fixed Assets & Others	9,554	11,047	12,536	8,525
	<u>30,341</u>	<u>30,948</u>	<u>31,165</u>	<u>24,816</u>
<b>TOTAL ASSETS</b>	<u><u>262,189</u></u>	<u><u>253,342</u></u>	<u><u>213,175</u></u>	<u><u>169,234</u></u>
<b>Interest Bearing Liabilities</b>				
Deposits	201,967	185,222	163,250	140,580
Borrowings	34,622	42,876	25,825	10,485
	<u>236,588</u>	<u>228,098</u>	<u>189,075</u>	<u>151,065</u>
<b>Non Interest Bearing Liabilities</b>	7,338	7,052	7,061	4,886
<b>TOTAL LIABILITIES</b>	<u>243,926</u>	<u>235,150</u>	<u>196,136</u>	<u>155,951</u>
<b>EQUITY (including revaluation surplus)</b>	18,263	18,192	17,039	13,283
<b>Total Liabilities &amp; Equity</b>	<u><u>262,189</u></u>	<u><u>253,342</u></u>	<u><u>213,175</u></u>	<u><u>169,234</u></u>
<b>INCOME STATEMENT</b>				
	30-Sep-16 9MCY16	31-Dec-15 Annual	31-Dec-14 Annual	31-Dec-13 Annual
Interest / Mark up Earned	13,373	18,320	16,906	13,639
Interest / Mark up Expensed	(8,114)	(10,722)	(10,626)	(8,751)
<b>Net Interest / Markup revenue</b>	<u>5,260</u>	<u>7,597</u>	<u>6,280</u>	<u>4,888</u>
Other Income	2,166	3,153	2,509	2,245
<b>Total Revenue</b>	<u>7,426</u>	<u>10,750</u>	<u>8,789</u>	<u>7,133</u>
Non-Interest / Non-Mark up Expensed	(4,833)	(6,125)	(5,798)	(4,868)
<b>Pre-provision operating profit</b>	<u>2,593</u>	<u>4,625</u>	<u>2,991</u>	<u>2,265</u>
Provisions	27	(1,029)	(549)	(735)
Pre-tax profit	2,620	3,596	2,442	1,529
Taxes	(1,078)	(1,383)	(860)	(494)
<b>Net Income</b>	<u>1,542</u>	<u>2,213</u>	<u>1,582</u>	<u>1,036</u>
<b>Ratio Analysis</b>				
	30-Sep-16	31-Dec-15	31-Dec-14	31-Dec-13
<b>Performance</b>				
ROE	13%	15%	12%	8%
Cost-to-Total Net Revenue	65%	57%	66%	68%
Provision Expense / Pre Provision Profit	-1%	22%	18%	32%
<b>Capital Adequacy</b>				
Equity/Total Assets	6%	6%	7%	7%
Capital Adequacy Ratio as per SBP	15%	15%	12%	12%
<b>Funding &amp; Liquidity</b>				
Liquid Assets / Deposits and Borrowings	56%	50%	44%	40%
Advances / Deposits	49%	60%	66%	69%
CASA deposits / Total Customer Deposits	72%	69%	67%	70%
<b>Intermediation Efficiency</b>				
Asset Yield	8%	9%	11%	10%
Cost of Funds [Interest Expensed / Average (Deposits + Borrowings)]	5%	5%	6%	6%
Spread	3%	4%	4%	4%
<b>Outreach</b>				
Branches	281	266	246	239





## STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS	
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.	A1+	The highest capacity for timely repayment.
AA+	<b>Very high credit quality.</b> Very low expectation of credit risk.	A1:	A strong capacity for timely repayment.
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A2:	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3:	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+	<b>High credit quality.</b> Low expectation of credit risk.	B:	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A	The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	C:	An inadequate capacity to ensure timely repayment.
A-			
BBB+	<b>Good credit quality.</b> Currently a low expectation of credit risk.		
BBB	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.		
BBB-			
BB+	<b>Speculative.</b> Possibility of credit risk developing.		
BB	There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.		
BB-			
B+	<b>Highly speculative.</b> Significant credit risk.		
B	A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.		
B-			
CCC	<b>High default risk.</b> Substantial credit risk		
CC	"CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
C			
D	Obligations are currently in default.		

### Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation - Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

### Outlook (Stable, Positive, Negative, Developing)

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

### Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

### Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issues in Pakistan. They do not take into account the potential transfer or convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.





## Regulatory and Supplementary Disclosure

**Rated Entity**

**Name of Issuer**  
**Name of Issue**  
**Sector**  
**Type of Relationship**

Soneri Bank Limited  
 Soneri Bank Limited | TFC  
 Banking  
 Solicited

**Purpose of the Rating**

Regulatory Requirement  
 Independent Risk Assessment

**Rating History**

Dissemination Date	TFC	Rating Action
16-Dec-16	A+	Maintain
17-Jun-16	A+	Maintain
17-Dec-15	A+	Maintain
17-Jun-15	A+	Initial
8-May-15	A+	Initial
29-Jan-15	A+	Preliminary

**Instrument Details**

Nature of Instrument	Size of Issue	Tenor	Trustee	Security
TFC (Sub-ordinated, Lsited)	PKR 3,000mln	8 years	Pak Brunei Investment Company	Unsecured

**Amortization Schedule**

See Annexure I

**Related Criteria and Research**

**Specific Methodology Research**

Banks Methodology - 2016  
 Banking Sector Review - 2016

**Rating Analysts**

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**Rating Team Statement**

**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

**Disclaimer**

**Rating Shopping**

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**Probability of Default (PD)**

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e. probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. ([www.pacra.com](http://www.pacra.com)). However, actual transition of rating may not follow the pattern observed in the past.



PACRA

**Regulatory and Supplementary Disclosure  
Annexure I**

Loan Amount (PKR) 3,000,000,000  
 Tenor (Years) 8 years  
 Rate 6MK + 1.35% (Kibor assumed 6.5%)

PKR mln

Installment	Post Issuance	Principal	Mark Up	Total Installment	Outstanding
					3,000
1	Jan-16	0.6	127	128	2,999
2	Jul-16	0.6	118	118	2,999
3	Jan-17	0.6	118	118	2,998
4	Jul-17	0.6	118	118	2,998
5	Jan-18	0.6	118	118	2,997
6	Jul-18	0.6	118	118	2,996
7	Jan-19	0.6	118	118	2,996
8	Jul-19	0.6	118	118	2,995
9	Jan-20	0.6	118	118	2,995
10	Jul-20	0.6	118	118	2,994
11	Jan-21	0.6	118	118	2,993
12	Jul-21	0.6	117	118	2,993
13	Jan-22	0.6	117	118	2,992
14	Jul-22	0.6	117	118	2,992
15	Jan-23	0.6	117	118	2,991
16	Jul-23	2,991	0	2,991	0

█ Call option exercisable date

