



The Pakistan Credit Rating Agency Limited

Rating Report

Soneri Bank Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Sep-2018	AA-	A1+	Stable	Maintain	-
14-Jun-2018	AA-	A1+	Stable	Maintain	-
15-Dec-2017	AA-	A1+	Stable	Maintain	-
16-Jun-2017	AA-	A1+	Stable	Maintain	-
17-Jun-2016	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect Soneri Bank's sustained business profile; system share slightly improved YoY. The bank expanded its deposit base in line with the industry growth, while maintaining the contribution of low cost deposits. The bank witnessed a rise in ADR subsequent to fresh deployment in advances. The cost structure (cost to total net revenue) has increased. The marginal increase in net interest revenue translated into slight improvement in profitability (YoY). Going forward, the bank, while focusing on improving asset quality, intends to follow a prudent strategy in terms of advances growth. Continued enhancement in non-fund based exposure, delivering higher fee income, focusing on low cost deposit mobilization and to capitalize on various business opportunities including those which are a part of CPEC. At the same time, the strategy would be to mobilize low cost deposits with an increase in branch network. The bank's CAR reduced with decline in Tier-I YoY (end-Jun18: 9.7%, end-Dec17: 9.9%) owing to increase in risk weighted assets. The bank is in the process of issuing additional Tier-1 TFC (PKR 4,000mln), expected to boost its total eligible capital.

The rating is a function of bank's ability to maintain its market position in the banking industry while strengthening its overall risk profile. Bringing efficiency in overall operational structure is important for long term growth. In the comparative landscape, adding granularity to deposits and advances is critical. Meanwhile, a sustainable increase in system share and consequent profitability would be ratings positive.

Disclosure

Name of Rated Entity	Soneri Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Bank Rating(Jun-17),Methodology Basel III Compliant - Debt Instrument(Jun-18)
Related Research	Sector Study Commercial Bank(Jun-18)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504



Profile

Structure Listed
Background Incorporated in 1991
Operations Commercial Banking

Ownership

Ownership Structure Feerasta Family holds controlling stake (61%), followed by NIT (~10%), while rest is spread across general public and others.
Stability The majority shareholding has been with Feerasta Family since the inception of bank. Soneri Bank Limited (SBL) has a sustained deposit system share of 1.8% at end-Dec17 and is operating with a network of 290 branches (CY16: 288, CY15: 266) across the country.
Business Acumen The Feerasta Family has been associated with diverse set of businesses, since last few decades and has been successfully managing them.
Financial Strength The Family is one of the well-known business groups in Pakistan with diverse commercial interests ranging from manufacturing, exporting, banking and trade financing.

Governance

Board Structure The control is vested with an eight member board including the CEO; three nominees of the Feerasta Family, one NIT representative along with three independent members.
Members' Profile The board members carry vast professional experience in commercial banking and other sectors.
Board Effectiveness There are four board committees; i) Audit ii) Risk management iii) Human Resource and Remuneration, and iv) Credit in place, which assist board in effective oversight of the bank's overall operations on relevant matters.
Financial Transparency The auditors of the company M/s. A.F. Ferguson & Co., Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY17. Furthermore, "Review of Interim Financial Information" has been performed by external auditors for 1HCY18.

Management

Organizational Structure Overall operations have been divided into thirteen functions and organized into Northern, Central and Southern regions for effective management and control. Ten functions report directly to the CEO, whereas, remaining three – Risk Management, Operations and Information Technology – report to the Executive Director and COO.
Management Team The President and CEO, Mr. Aftab Manzoor, carries over three decades of international banking experience. Executive Director and COO, Mr. Amin A. Feerasta, has been associated with the bank since 2000.
Effectiveness The bank has nine management committees in place; all headed by the CEO. The committees are i) Management, ii) Executive Credit, iii) Assets & Liability, iv) Investment, v) I.T Steering, vi) Credit Risk Management, vii) Business Continuity Plan Steering, viii) Operational Risk Management Committee and ix) Market and Liquidity Risk Management Committee.
MIS All vital business and financial information is monitored by CEO on regular basis.
Risk Management Framework SBL has an established risk management function, which deploys integrated risk management framework. The risk management policy covers all major types of risks and is formulated in line with regulatory guidelines.

Business Risk

Industry Dynamics The banking sector has experienced highest growth in terms of advances in CY17 over the last decade. As a consequence, there is mounting pressure on capital adequacy ratio of the banks. The challenge is exacerbated as the internal generation of capital (profits) are witnessing a dip. Some relief on income side is expected with recent uptick in interest rates.
Relative Position Soneri bank limited is a medium sized bank.
Revenues During 1HCY18, net interest income grew to PKR 3.3bln (1HCY17: PKR 3.2bln), depicting a rise of 4% YoY. However, earning assets increased by 13% for the same period. Non-markup expenses increased by 3% to stand at PKR 3.5bln. Spread stood at 2.2% (CY17: 2.5%).
Performance Net revenue witnessed a marginal decline to PKR 4.9bln (1HCY17: PKR 5.0bln) primarily due to decline in gains on sale of investments. Non-markup expenses increased which translated in increased cost to total revenue to 72% (CY17: 71%). Pre-provision operating profit stood at PKR 1.3bln (1HCY17: PKR 1.5bln), down 12% YoY. Supported by reversal in provision, net profit was closed at PKR 976mln (1HCY17: PKR 812mln).
Sustainability Going forward, rise in interest rates may extend to increased topline. Sustainable measures for non-markup income remain vital for the bank.

Financial Risk

Credit Risk During 1HCY18, lending portfolio registered 2% growth with Corporate and SME segments dominating the portfolio. The bank's net advances to deposit ratio declined to 69% (CY17: 72.3%) primarily due to greater emphasis on funding. During 1HCY18, infection ratio remained at 6.0% (CY17: 5.9%).
Market Risk Investment portfolio, comprises 46% of the earning assets, witnessed a significant increase during 1HCY18 to stand at PKR 154bln (CY17: PKR 114bln). However, continued to primarily comprise government securities (97%); mix tilted towards T-bills - in line with industry trend.
Liquidity And Funding At end-Jun18, customer deposits stood at PKR 228bln with an increase of 8%; CASA reduced to 67.0% (end-Dec'17: 70.3%) due to increase in time deposits. Liquidity position improved to 42% (end-Dec'17: 38.1%) due to further investment in liquid securities.
Capitalization At end-Jun18, CAR closed at 12.5% (Tier-I: end-Jun'18: 9.7%, end-Dec'17: 9.9%) remained under pressure; owing to significant rise in risk weighted assets (driven by growth in advances). However, CAR is expected to rise after incorporation of Tier-1 TFC. SBL issued its 2nd subordinated, unsecured, and listed TFC of PKR 3,000mln in Jul15 (Tenor 8 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 Jul'20. The issue carries lock-in and loss absorbency clauses. SBL is in the process of issuing Unsecured, Subordinated, Listed, Perpetual and Non-Cumulative Term Finance Certificates of PKR 4,000mln. The instrument is perpetual in nature with no fixed redemption date. Profit payments are subject to the condition that such payments will not result in breach of Soneri's MCR or CAR requirements. The Instrument is subject to loss absorption upon the occurrence of a Pre-Specified Trigger.



BALANCE SHEET	30-Jun-18	31-Dec-17	31-Dec-16	31-Dec-15
	<i>1H</i>	<i>Annual</i>	<i>Annual</i>	<i>Annual</i>
Earning Assets				
Advances (Net of NPL)	165,869	162,528	123,333	109,033
Debt Instruments	3,358	2,956	3,989	2,304
Total Finances	169,227	165,484	127,322	111,337
Investments	154,129	114,472	113,895	106,542
Others	7,865	6,751	5,678	3,276
	331,221	286,707	246,894	221,155
Non Earning Assets				
Non-Earning Cash	25,560	20,376	18,960	18,170
Deferred Tax	-	-	-	-
Net Non-Performing Finances	2,350	1,765	1,972	2,969
Fixed Assets & Others	13,034	13,286	10,693	11,047
	40,943	35,427	31,625	32,186
TOTAL ASSETS	372,164	322,134	278,520	253,342
Interest Bearing Liabilities				
Deposits	243,417	227,348	209,925	185,222
Borrowings	101,712	67,582	41,903	42,876
	345,130	294,930	251,828	228,098
Non Interest Bearing Liabilities	8,832	8,699	8,403	7,052
TOTAL LIABILITIES	353,961	303,629	260,230	235,150
EQUITY (including revaluation surplus)	18,202	18,505	18,289	18,192
Total Liabilities & Equity	372,164	322,134	278,520	253,342
INCOME STATEMENT	30-Jun-18	31-Dec-17	31-Dec-16	31-Dec-15
	<i>1H</i>	<i>Annual</i>	<i>Annual</i>	<i>Annual</i>
Interest / Mark up Earned	9,472	18,505	17,524	18,320
Interest / Mark up Expensed	(6,092)	(11,846)	(10,680)	(10,722)
Net Interest / Markup revenue	3,380	6,659	6,844	7,597
Other Income	1,569	3,269	2,736	3,150
Total Revenue	4,950	9,928	9,580	10,748
Non-Interest / Non-Mark up Expensed	(3,559)	(7,017)	(6,479)	(6,123)
Pre-provision operating profit	1,391	2,911	3,102	4,625
Provisions	234	(66)	(24)	(1,029)
Pre-tax profit	1,624	2,845	3,077	3,596
Taxes	(648)	(1,188)	(1,198)	(1,383)
Net Income	976	1,657	1,879	2,213
Ratio Analysis	30-Jun-18	31-Dec-17	31-Dec-16	31-Dec-15
Performance				
ROE	11.8%	10.2%	12.0%	15.0%
Cost-to-Total Net Revenue	72.1%	71.0%	67.8%	57.3%
Provision Expense / Pre Provision Profit	-16.8%	2.3%	0.8%	22.3%
Capital Adequacy				
Equity/Total Assets	4.5%	5.1%	5.7%	6.1%
Capital Adequacy Ratio as per SBP	12.5%	12.8%	14.1%	15.4%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	41.8%	38.1%	47.7%	50.0%
Advances / Deposits	69.1%	72.3%	59.7%	60.5%
CASA deposits / Total Customer Deposits	67.0%	70.3%	69.7%	69.2%
Intermediation Efficiency				
Asset Yield	6.2%	7.0%	7.6%	9.2%
Cost of Funds [Interest Expensed / Average (Deposits + Borrowings)]	4.0%	4.6%	4.7%	5.4%
Spread	2.2%	2.5%	2.9%	3.8%
Outreach				
Branches	290	290	288	266

Credit 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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk "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.		
D	Obligations are currently in default.		



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'.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / 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.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) 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). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent