



The Pakistan Credit Rating Agency Limited

SONERI BANK LIMITED

	NEW [JUNE-16]	PREVIOUS [JUNE-15]
Entity		
Long Term	AA-	AA-
Short Term	A1+	A1+
Outlook	Stable	Stable

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Profile & Ownership

- Soneri Bank Limited (SBL), incorporated in Sep91, is a small size commercial bank having 1.8% deposit share in the system
- Operating with a network of 266 branches and 274 ATMs across the country
- Feerasta Family – sponsors of Rupali Group – holds controlling stake (58%), followed by NIT (13%), while rest is spread across general public and others

Governance

- Eight member board including the CEO; two directors represent Feerasta Family, two are NIT nominees, while three are independent members

Management

- Experienced management team
- The President and CEO, Mr. Aftab Manzoor, carries over three decades of international banking experience; supported by COO, Mr. Amin A. Feerasta
- Operations divided into thirteen functions

Risk Management

- SBL is implementing T24 as core banking software (to be online by Jul17)
- During CY15, lending portfolio registered ~4% growth, mainly financed through deposits; corporate segment dominated the portfolio (73%); exposure to top-3 sectors witnessed a meager decline (CY15: 59%)
- The bank’s advances to deposit ratio rationalized to 60% at end-Dec15; though higher than industry average; expected to remain range bound in medium term
- Top-20 private performing clients’ concentration inched up (CY15: 27%, CY14: 26%); considered high when compared with AA rated banks
- During CY15, despite significant cash recovery, asset quality weakened; infection ratio increased to 10% (CY14: 9%); though subjectively classified as NPL
- During CY15, investment portfolio, comprising 48% of earning assets, witnessed ~44% YoY growth; dominated by government securities (98%); mix tilted towards T-bills; unrealized capital gains as of Mar16: PKR 3.1bln

Business Risk

- Performance trend maintained; net interest income registered 21% YoY growth on the back of volumetric increase in earning assets coupled with curtailed markup expense; however, spread reduced to 3.6% (CY14: 3.9%)
- Support from non-markup income (25% increase) a facet of gain on sale of investments augmented the revenue base
- Operating expenses (cost to total net revenue) reduced to 57% in CY15 (CY14: 66%) – a factor of one-off capital gains
- Despite significant increase in provisioning expense, the benefit of healthy revenue base helped the bank in posting healthy profits (PKR 2.2bln; up 40%)
- Going forward, management is focused on capitalizing CPEC opportunities through participation in consortiums. At the same time, low cost deposit mobilization drive will continue (branches target at end-CY16: 300)

Financial Risk

- Deposits increased by ~8% YoY with an addition of PKR 12bln; CASA slightly improved (end-Dec15: 69%, end-Dec14: 67%)
- Top-20 depositors’ concentration marginally increased to 19% (CY14: 18%); still good in comparison to peer banks
- Overall liquidity position strengthened due to rise in risk free investments
- Capitalization remained healthy with CAR standing at 15.4% at end-Dec15; though declined at end-Mar16 – a factor of dividend payout

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 ~4% to 9%, incorporating the projections

RATING RATIONALE

The ratings reflect Soneri Bank’s sustained business profile; system share in terms of deposits maintained. The bank’s earning assets registered a growth – mainly in government securities – funded by money market borrowings and deposits. ADR rationalized, yet remained healthy versus industry average. With sizeable government securities exposure, capital gains augmented the bottom-line. Thus the bank’s profitability maintained its upward trajectory; however, spreads came down – an industry wide phenomenon. Going forward, the bank, while focusing to improve asset quality, intends to follow a conservative strategy in terms of advances growth. Enhancing non-fund based exposure, in turn fee income, would be focused while capitalizing on potential business opportunities expected from China-Pakistan Economic Corridor. At the same time, the strategy would be to mobilize low-cost deposits; branch network is targeted to increase to 300 by end-Dec16. The bank maintained sound liquidity and good risk absorption capacity. However, dividend pay-out declined the capital adequacy ratio (15% at end-Dec15) at end-Mar16; this needs effective monitoring going forward.

KEY RATING DRIVERS

The rating is dependent on the bank’s ability to maintain its market position in banking 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

	PKR mln			
	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
BALANCE SHEET				
Earning Assets				
Advances (Net of NPL)	110,200	109,033	105,389	94,249
Debt Instruments	2,821	2,304	1,471	854
Total Finances	113,021	111,337	106,861	95,103
Investments	130,512	106,542	74,244	45,844
Others	7,318	4,514	905	3,471
	250,851	222,393	182,010	144,418
Non Earning Assets				
Non-Earning Cash	13,748	16,932	16,050	12,897
Deferred Tax	-	-	-	103
Net Non-Performing Finances	2,566	2,969	2,579	3,290
Fixed Assets & Others	9,339	11,047	12,536	8,525
	25,653	30,948	31,165	24,816
TOTAL ASSETS	276,504	253,342	213,175	169,234
Interest Bearing Liabilities				
Deposits	195,618	185,222	163,250	140,580
Borrowings	55,817	42,876	25,825	10,485
	251,435	228,098	189,075	151,065
Non Interest Bearing Liabilities				
	7,474	7,052	7,061	4,886
TOTAL LIABILITIES	258,908	235,150	196,136	155,951
EQUITY (including revaluation surplus)	17,596	18,192	17,039	13,283
Total Liabilities & Equity	276,504	253,342	213,175	169,234
INCOME STATEMENT				
	31-Mar-16 1QCY16	31-Dec-15 Annual	31-Dec-14 Annual	31-Dec-13 Annual
Interest / Mark up Earned	4,533	18,320	16,906	13,639
Interest / Mark up Expensed	(2,642)	(10,722)	(10,626)	(8,751)
Net Interest / Markup revenue	1,891	7,597	6,280	4,888
Other Income	569	3,153	2,509	2,245
Total Revenue	2,460	10,750	8,789	7,133
Non-Interest / Non-Mark up Expensed	(1,582)	(6,125)	(5,798)	(4,868)
Pre-provision operating profit	878	4,625	2,991	2,265
Provisions	(56)	(1,029)	(549)	(735)
Pre-tax profit	822	3,596	2,442	1,529
Taxes	(283)	(1,383)	(860)	(494)
Net Income	539	2,213	1,582	1,036
Ratio Analysis				
	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
Performance				
ROE	14%	15%	12%	8%
Cost-to-Total Net Revenue	65%	57%	66%	68%
Provision Expense / Pre Provision Profit	6%	22%	18%	32%
Capital Adequacy				
Equity/Total Assets	5%	6%	7%	7%
Capital Adequacy Ratio as per SBP	14%	15%	12%	12%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	50%	50%	44%	40%
Advances / Deposits	58%	60%	66%	69%
CASA deposits / Total Customer Deposits	72%	69%	67%	70%
Intermediation Efficiency				
Asset Yield	8%	9%	11%	10%
Cost of Funds	5%	5%	6%	6%
Spread	3%	4%	4%	4%
Outreach				
Branches	266	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 AA+ AA AA- A+ A A-	<p>Highest credit quality. 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.</p> <p>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.</p> <p>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.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>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.</p>	
BB+ BB BB-	<p>Speculative. Possibility of credit risk developing. 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.</p>	
B+ B B-	<p>Highly speculative. Significant 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.</p>	
CCC CC C	<p>High default 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.</p>	
D	<p>Obligations are currently in default.</p>	

<p>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.</p>	<p>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’.</p>	<p>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.</p>	<p>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.</p>
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Name of Issuer
Sector
Type of Relationship

SONERI BANK LIMITED (SBL)
Banking
Solicited

Purpose of the Rating

Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
17-Jun-16	AA-	A1+	Stable	Maintain
17-Jun-15	AA-	A1+	Stable	Maintain
17-Jun-14	AA-	A1+	Stable	Maintain
26-Jun-13	AA-	A1+	Stable	Maintain
22-Jun-12	AA-	A1+	Stable	Maintain
27-Jun-11	AA-	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology
Sector Research

Bank Rating Methodology
Banking Sector - Viewpoint | Dec-15

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[Probability of Default \(PD\)](#)

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