Soneri Bank

SBL/Secy/PSX/17/457
15 December 2017

The General Manager
Pakistan Stock Exchange Ltd.
Stock Exchange Building
Stock Exchange Road
Karachi
Fax No: (021) 111-573-329

Through PUCARS & by hand delivery

Subject: Semi-annual credit 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 credit 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.

In the attached report, PACRA has maintained instrument's rating at A+ with stable outlook.

Thanking you,

Yours truly,

SONERI BANK LIMITED
Soneri Bank

Muhammad Altaf Butt
Company Secretary

Encls: a.a.

PACRA

The Pakistan Credit Rating Agency Limited

SONERI BANK LIMITED

TFCs Issue (Unsecured, Subordinated)	MAINTAIN [DEC-17]	MAINTAIN [JUN-17]
TFC (*PKR 3,000mln*)	A+	A+

REPORT CONTENTS

ATTESTED
SONERI BANK LIMITED
MUHAMMAD ALTAF BUTT
COMPANY SECRETARY
15/12/2017

DECEMBER 2017

Profile & Ownership

- Soneri Bank Limited (SBL), incorporated in Sep91, has a sustained deposit system share of 1.8%
- At end-Sep17, bank is operating with a network of 286 branches (CY16: 288, CY15: 266) across the country
- Feerasta Family – sponsors of Rupali Group – holds controlling stake (58%), followed by NIT (~10%), while rest is spread across general public and others

Governance & Management

- Eight member board including the CEO; three directors represent Feerasta Family, one is NIT nominee, while three are independent members
- 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.
- Operations divided into sixteen functions

Risk Management

- During 9MCY17, lending portfolio registered 25% growth with corporate and SME segment dominating the portfolio
- The bank's advances to deposit ratio surged to 72.5% (CY16: 59%) on account of greater increase in lending
- Top-20 performing exposure's concentration witnessed marginal improvement to 22% (CY16: 23%)
- During 9MCY17, infection ratio declined to 6.3% (CY16: ~8%) on back of significant increase in gross advances; NPLs remained largely same
- Investment portfolio, comprising 43% of earning assets, witnessed 14% growth in the period; dominated by government securities (97%); mix tilted towards T-bills

Business Risk

- During 9MCY17, net interest income witnessed decline (6.7%), despite significant rise in earning assets (21%); mark-up expenses also inched up. Hence, spread marginally reduced to 2.4% (CY16: 2.9%)
- Non-markup income increased to PKR 2.5bln, up 17% YoY
- Operating expenses (cost to total net revenue) increased to ~71% in 9MCY17 (CY16: ~68%)
- During 9MCY17, the provisioning expense increased to PKR 100mln, the profit after tax stood at PKR 1.2bln, down 20% YoY
- Going forward, management is focused on low cost deposit mobilization and capitalizing on CPEC opportunities through participation in consortiums

Financial Risk

- At end-Sep17, deposits stood at PKR 202bln with an increase of 2% - industry witnessed growth of 7%; CASA improved to ~72% (end-Dec16: ~70%, end-Dec15: 69%)
- Top-20 depositors' concentration remained at 25% (CY16: 25%); considered high when compared with AA rating benchmarks.
- Overall liquidity position declined significantly to ~34% (end-Dec16: 47%, end-Dec15: 50%).
- CAR stood at 13.0% (Tier-I: end-Sep17: 10.3%, end-Dec16: 10.8%) declined YoY; owing to decrease in profitability and significant rise in risk weighted assets

TFC Issue:

- SBL issued 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 Jul20.
- The issue carries a lock-in and loss absorbency clauses
- Cushion to loss absorbency ranges from 3% to 5% after incorporation of projections

RATING RATIONALE

The ratings reflect Soneri Bank's sustained business profile; system share remained intact YoY. There was a meager increase in deposit base - lower than average industry. The bank continues to make fresh deployment in advances, hence an increase was witnessed in the bank's ADR - which is comparatively higher than industry average. The reduction in net interest revenue translated into reduced profitability YoY, a factor of squeeze in spreads – an industry wide phenomenon. Going forward, the bank, while focusing to improve asset quality, intends to follow a prudent strategy in terms of advances growth. Enhancing non-fund based exposure, in turn fee income and would be targeted 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 with an increase in branch network. The bank's CAR reduced to 13.0% (end-Dec16: 14.1%) primarily on account of increase in risk weighted assets.

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, sustainable increase in system share and consequent profitability would be ratings positive.

SONERI BANK LIMITED
ATTESTED

PACRA

Financials [Summary]

The Pakistan Credit Rating Agency Limited

Soneri Bank Limited

PKR mln

BALANCE SHEET	30-Sep-17 9MFY17	31-Dec-16 Annual	31-Dec-15 Annual	31-Dec-14 Annual
Earning Assets				
Advances (Net of NPL)	154,054	123,333	109,033	105,389
Debt Instruments	2,894	3,989	2,304	1,471
Total Finances	156,948	127,322	111,337	106,861
Investments	130,066	113,895	106,542	74,244
Others	11,741	5,678	4,514	905
	298,755	**246,894**	**222,393**	**182,010**
Non Earning Assets				
Non-Earning Cash	19,753	18,960	16,932	16,050
Deferred Tax	-	-	-	-
Net Non-Performing Finances	1,797	1,972	2,969	2,579
Fixed Assets & Others	10,901	10,693	11,047	12,536
	32,451	**31,625**	**30,948**	**31,165**
TOTAL ASSETS	**331,206**	**278,520**	**253,342**	**213,175**
Interest Bearning Liabilities				
Deposits	214,846	210,840	185,222	163,250
Borrowings	90,576	41,903	42,876	25,825
	305,422	252,743	228,098	189,075
Non Interest Bearing Liabilities	8,663	7,488	7,052	7,061
TOTAL LIABILITIES	**314,085**	**260,230**	**235,150**	**196,136**
EQUITY (including revaluation surplus)	**17,121**	**18,289**	**18,192**	**17,039**
Total Liabilities & Equity	**331,206**	**278,520**	**253,342**	**213,175**

INCOME STATEMENT	30-Sep-17 9MFY17	31-Dec-16 Annual	31-Dec-15 Annual	31-Dec-14 Annual
Interest / Mark up Earned	13,653	17,524	18,320	16,906
Interest / Mark up Expensed	(8,748)	(10,680)	(10,722)	(10,626)
Net Interest / Markup revenue	**4,906**	**6,844**	**7,597**	**6,280**
Other Income	2,530	2,736	3,150	2,509
Total Revenue	**7,436**	**9,580**	**10,748**	**8,789**
Non-Interest / Non-Mark up Expensed	(5,236)	(6,479)	(6,123)	(5,798)
Pre-provision operating profit	2,199	3,102	4,625	2,991
Provisions	(100)	(24)	(1,029)	(549)
Pre-tax profit	2,100	3,077	3,596	2,442
Taxes	(868)	(1,198)	(1,383)	(860)
Net Income	**1,231**	**1,879**	**2,213**	**1,582**

Ratio Analysis	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
Performance				
ROE	10.3%	12.0%	15.0%	11.9%
Cost-to-Total Net Revenue	70.6%	67.8%	57.3%	66.2%
Provision Expense / Pre Provision Profit	4.5%	0.8%	22.3%	18.4%
Capital Adequacy				
Equity/Total Assets	4.8%	5.7%	6.1%	6.6%
Capital Adequacy Ratio as per SBP	13.0%	14.1%	15.4%	12.5%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	33.7%	47.5%	50.0%	44.4%
Advances / Deposits	72.5%	59.4%	60.5%	66.1%
CASA deposits / Total Customer Deposits	71.8%	69.9%	69.2%	67.2%
Intermediation Efficiency				
Asset Yield	6.8%	7.6%	9.2%	10.5%
Cost of Funds [Interest Expensed / Average (Deposits + Borrowings)]	4.4%	4.7%	5.4%	6.3%
Spread	2.4%	2.9%	3.8%	4.2%
Outreach				
Branches	286	288	266	246

SONERI BANK LIMITED ATTESTED

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	
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
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.
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.
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.
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+ 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.
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.

SHORT TERM RATINGS
A1+: The highest capacity for timely repayment.
A1:. A strong capacity for timely repayment.
A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C: An inadequate capacity to ensure timely repayment.

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 surveill the opinion due to lack of requisite information

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.

Regulatory and Supplementary Disclosure

Rated Entity	
Name of Issuer	Soneri Bank Limited
Name of Issue	Soneri Bank Limited | TFC
Sector	Banking
Type of Relationship	Solicited
Purpose of the Rating	Regulatory Requirement Independent Risk Assessment

Rating History

Dissemination Date	TFC	Action
15-Dec-17	A+	Maintain
17-Jun-17	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-ordianted, Lsited)	PKR 3,000mln	8 years	Pak Brunei Investment Company	Unsecured

Amortization Schedule — See Annexure I

Related Criteria and Research

Specific Methodology: Banking Methodology [2017]
Research: Banking Sector Review - 2017

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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The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest
The analysts and members of the rating committees including the external members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA
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Surveillance
PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may reasonably be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

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PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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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). However, actual transition of rating may not follow the pattern observed in the past

SONERI BANK LIMITED ATTESTED

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

SONERI BANK LIMITED ATTESTED