



## Rating Action

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## Applicable Criteria and Related Research

- Banking Sector - Viewpoint | Dec-15
- Bank Rating Methodology

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## PACRA Maintains Entity and TFC Ratings of Soneri Bank Limited

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term entity ratings of Soneri Bank Limited (SBL) at "AA-" (Double A minus) and "A1+" (Single A one plus) respectively. These ratings denote a very strong capacity of timely payment of financial commitments. The rating of unsecured, subordinated, and listed TFCs of PKR 3,000mln has also been maintained at "A+" (Single A plus). This rating denotes a low expectation of credit risk.

The ratings reflect Soneri Bank's sustained business profile; deposit system share 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 target 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.

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 operational structure is important to rationalize costs. In comparative landscape, adding granularity to core operations is critical. Meanwhile, increase in system share would be ratings positive.

**About the TFC:** SBL has issued its 2nd unsecured, subordinated, and listed TFCs of PKR 3,000mln in July 2015 to enhance cushion in capital adequacy. The tenor of the instrument is eight years ending in 2023. Profit rate is based on 6M-KIBOR Plus 135bps p.a. payable semi-annually in arrears. Major principal repayment (99.7%) would be in bullet form at maturity in Jul-23 (96th month). SBL retains the call option on the instrument, which may be exercised, in part or full, after five years (Jul-20) of issue, subject to SBP's approval. The issue carries a lock-in clause and is also subject to loss absorbency. Keeping in view projections, cushion to loss absorbency is expected to remain comfortable.

**About The Bank:** SBL, established in 1991, operates with a network of 266 branches across the country. Feerasta family, owners of the Rupali group, holds the controlling stake (58%) through three trusts and individuals.

The eight-member BoD, with diversified experience, comprises two nominees of Feerasta family, three independent directors, two NIT representatives, and the CEO. Mr. Aftab Manzoor, CEO since 2011, is a seasoned banker. He is assisted by an experienced management team.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA 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.