



The Pakistan Credit Rating Agency Limited

## Rating Report

### Soneri Bank Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2021	AA-	A1+	Stable	Maintain	-
25-Jun-2020	AA-	A1+	Stable	Maintain	-
19-Dec-2019	AA-	A1+	Stable	Maintain	-
19-Jun-2019	AA-	A1+	Stable	Maintain	-
20-Dec-2018	AA-	A1+	Stable	Maintain	-
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 maintained business profile as reflected by intact system share in terms of deposits (end-Dec20: 1.8%, end-Dec19: 1.8%). SNBL's customer deposits observed growth of 12.9%, CASA ratio also witnessed growth (CY20: ~69%; CY19: ~63%); where deposits remained tilted towards saving. Going forward enhanced deposit mobilization will remain vital in maintaining system share. Total income witnessed an increase of 34% YoY attributable to increased net mark up income and gain on securities. Spread also witnessed uptick (end-Dec20: 3.1%; end- Dec19: 2.8%). Sustainability in net mark up income & non-markup income and continued enhancement in non-fund based exposure are important for future years. Attrition in advances, compared to meager growth observed by industry, led to increased infection ratio (CY20: 6.2%; CY19: 5.1%). The Investment book has expanded significantly by 41% YOY, dominated by investments in PIBs. Going forward, the strategy is to strengthen the existing good relationships and digital platform by offering various unique solutions to its customers. The Bank's Tier-I ratio stands at 14.1% as at end-Dec20. Total CAR stands at 17.0%. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle resumes amid variants of the pandemic continue to re-emerge.

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 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

<b>Name of Rated Entity</b>	Soneri Bank Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   FI (Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Commercial Bank(Jun-20)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504



## Profile

**Structure** Soneri Bank Limited (SNBL), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1991.  
**Background** Soneri Bank's registered office is situated at 2nd Floor, 307-Upper Mall Scheme, Lahore; while its central office is located at 10th Floor, PNSC Building, M.T. Khan Road, Karachi.  
**Operations** The Bank is engaged in provision of banking and financial services. The Bank operates with 340 branches as at end-Dec20 (CY19: 308) branches including 30 Islamic banking branches (CY19: 25 Islamic banking branches) in Pakistan.

## Ownership

**Ownership Structure** The Feerasta Family - sponsors of the Rupali Group, own 64% stake of the Bank; mainly through three trusts and individuals of the sponsor family. Other shareholders mainly include NBP which through NIT holds ~9% stake. The remaining stake (~27%) is widely spread among financial institutions, and general public.  
**Stability** Ownership structure of the bank is seen as stable as no ownership changes are expected in near future. Majority stake will rest with the Feerasta family.  
**Business Acumen** The Feerasta Family has been associated with some other businesses, since last few decades. Their business acumen is considered good.  
**Financial Strength** Given that Soneri is the flagship business of sponsors, willingness to support the Bank in case the need arises is considered high.

## Governance

**Board Structure** The overall control of the Bank vests with eight-member board of directors (BoD), including the CEO. Three of the board members are nominees of Feerasta family. There are two independent directors on board, namely Mr. Jamil Hassan Hamdani & Ms. Naveen Salim Merchant and one NIT nominee director, Mr. Manzoor Ahmed.  
**Members' Profile** The board members carry extensive professional experience in banking and other sectors. The BoD provides an overall guideline in managing risks associated with the Bank's operations and strategic direction.  
**Board Effectiveness** There are six board committees which assist the board in effective oversight of the Bank's overall operations on relevant matters.  
**Financial Transparency** KPMG Taseer Hadi & Co., Chartered Accountants have expressed an unqualified opinion on the financial statement for the year ended 31st December 2020. SNBL has an Internal Audit function which reports to the Board Audit Committee in line with the Code of Corporate Governance.

## Management

**Organizational Structure** Overall operations have been divided into thirteen functions and organized into Northern, Central and Southern regions for effective management and control.  
**Management Team** SNBL's management team comprises of experienced individuals. Mr. Muhtashim Ahmad Ashai joined the bank as CEO in Apr, 20. He is a seasoned banker and carries over 27 years of banking experience. He is supported by Deputy CEO (formerly Executive Director) - Mr. Amin A. Feerasta - who has been associated with the bank since 1999.  
**Effectiveness** SNBL has nine management committees in place; all headed by the CEO. These committees ensure the efficiency of Bank's overall operations.  
**MIS** The bank has deployed 'Temenos T24' as its Core Banking System in CY18. During the year, the Bank made substantial investments to add value to its operational risk management framework by purchasing the license of OpRisk Monitor, part of Enterprise Risk Management (ERM) solution, of SAS, also upgraded its data center and disaster recovery solutions.  
**Risk Management Framework** The risk management policy covers all major types of risks and is formulated in line with regulatory guidelines. SNBL's Risk Management Committee ensures that risk exposures are maintained within acceptable levels.

## Business Risk

**Industry Dynamics** The indicators of the banking sector reflected mixed trend where economy is recovering from the effects of COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to COVID-19 outbreak, the banking sector managed to grow by a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid COVID-19 pandemic outbreak. The policy measures rolled out by the SBP enabled the sector to enhance profitability, improve resilience and limit the credit risk. With the completion of deferment period allowed, the aftermath is yet to be comprehended by the industry.  
**Relative Position** SNBL, a small sized bank, holds a customer deposit base of PKR 345.5bln at end-Dec20 (CY19: PKR 302.1bln). The market share of deposits of the Bank remained stagnant at 1.8% (CY19: 1.8%).  
**Revenues** During CY20, SNBL's NIMR witnessed an increase of ~34.6% YOY to stand at PKR 10.7bln (CY19: PKR 7.9bln), with Markup income witnessing an increase of ~9% YOY to stand at PKR 42.2bln (CY19: PKR 38.7bln), driven by volumetric increase in investments in government securities. Markup expenses witnessed meagre increase (CY20: PKR ~31.6bln; CY19: PKR ~30.9bln). Hence, Bank's spread inched up to 3.1% (CY19: 2.8%). During 1QCY21, NIMR increased by ~29% YOY (1QCY21: PKR 2.7bln; 1QCY20: PKR 2.1bln).  
**Performance** During CY20, non-mark-up income increased considerably by 33 %, mainly due to realized capital gain of (PKR 818mln) in contrast to the loss recorded in CY19 of PKR 524mln. Non-markup expenses inclined to PKR 9.0bln (CY19: PKR 8.1bln), up by ~11% YOY. Net profit increased by ~26% and stood at PKR 2.4bln (CY19: PKR 1.9bln). During 1QCY21, reversals of PKR 123mln in comparison to provision charged in corresponding period (1QCY20: PKR 333mln) strengthened the bottom line to stand at PKR 782mln - a 91.6% increase YOY.  
**Sustainability** Moving ahead, the Bank intends to expand its branch network to assist outreach further - 32 Branches opened during CY20. Deposits have grown by 14.3% in CY20 wherein diversification in deposits portfolio mix has also improved and CASA mix reported at 67.2% (CY19: 62.0%). The Bank's Advances to Deposits ratio (ADR) decreased and was reported at 47.6% at the year-end 2020 (CY19: 67.8%). However, borrowings from financial institutions have exhibited a decrease. The Profitability stream is stable and supports the equity position. The management's focus is to improve the Bank's sustained market share while remaining compliant to minimum capital requirements.

## Financial Risk

**Credit Risk** During CY20, SNBL's net advances have decreased by 19%. The Bank's ADR decreased and was reported at 47.6% at the year-end 2020 (CY19: 67.8%). During CY20, Top-20 private performing advances' concentration inched up to 23.7% (CY19: 20.2%). Infection ratio increased to 6.2% (end-Dec19: 5.1%) owing to decline in advances. At end-Dec20, 28% of the total portfolio (w.r.t. number of obligors) falls in high risk category (7-12) (CY19: 24%).  
**Market Risk** As at end-Dec20, SNBL has an investment book of PKR 250bln (end-Dec19: PKR 177bln) which is majorly skewed towards Government securities (~97%). SNBL's exposure in T-bills has decreased to ~41% (end-Dec19: ~60%), while exposure in PIBs increased to 52% (end-Dec19: ~34%).  
**Liquidity And Funding** As at end-Dec20, customer deposits increased to PKR 295bln (end-Dec19: PKR 262bln), up by 12.6%. The bank's liquidity, in terms of Liquid Assets-to-Deposits and Borrowings ratio improved to ~62% (CY19: 46%). Herein, the Bank's leverage ratio stood at 4.0% as at end-Dec20.  
**Capitalization** At end-Dec20, the Bank reported CAR of 17.0%, comprising of Tier I capital (14.1%), remaining compliant with the minimum requirement by SBP. During 1QCY21, risk weighted assets increased by ~ 5%, resulting in CAR of 15.4% at end-Mar21



PKR mln

**Soneri Bank Limited**  
**Listed Public Limited**

Mar-21	Dec-20	Dec-19	Dec-18
3M	12M	12M	12M

**A BALANCE SHEET**

1 Total Finances - net	201,291	165,910	205,051	186,740
2 Investments	271,585	245,953	173,618	143,379
3 Other Earning Assets	20,038	8,957	1,383	4,106
4 Non-Earning Assets	48,880	61,888	59,200	45,271
5 Non-Performing Finances-net	2,684	2,637	3,288	3,001
<b>Total Assets</b>	<b>544,478</b>	<b>485,345</b>	<b>442,541</b>	<b>382,498</b>
6 Deposits	337,569	345,499	302,083	262,379
7 Borrowings	164,120	94,015	102,700	88,959
8 Other Liabilities (Non-Interest Bearing)	20,965	22,675	17,544	13,171
<b>Total Liabilities</b>	<b>522,655</b>	<b>462,188</b>	<b>422,327</b>	<b>364,509</b>
<b>Equity</b>	<b>21,823</b>	<b>23,157</b>	<b>20,214</b>	<b>17,989</b>

**B INCOME STATEMENT**

1 Mark Up Earned	8,838	42,228	38,790	21,600
2 Mark Up Expensed	(6,119)	(31,573)	(30,864)	(14,647)
3 Non Mark Up Income	961	3,807	2,861	3,260
<b>Total Income</b>	<b>3,681</b>	<b>14,463</b>	<b>10,787</b>	<b>10,213</b>
4 Non-Mark Up Expenses	(2,528)	(9,026)	(8,129)	(7,380)
5 Provisions/Write offs/Reversals	123	(1,402)	589	71
<b>Pre-Tax Profit</b>	<b>1,276</b>	<b>4,035</b>	<b>3,247</b>	<b>2,904</b>
6 Taxes	(494)	(1,634)	(1,341)	(1,121)
<b>Profit After Tax</b>	<b>782</b>	<b>2,400</b>	<b>1,906</b>	<b>1,783</b>

**C RATIO ANALYSIS**

**1 Performance**

Net Mark Up Income / Avg. Assets	2.1%	2.3%	1.9%	2.0%
Non-Mark Up Expenses / Total Income	68.7%	62.4%	75.4%	72.3%
ROE	13.9%	11.1%	10.0%	9.8%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	4.0%	4.8%	4.6%	4.7%
Capital Adequacy Ratio	15.4%	17.0%	15.8%	14.7%

**3 Funding & Liquidity**

Liquid Assets / (Deposits + Borrowings Net of Repo)	47.6%	61.8%	45.6%	40.3%
(Advances + Net Non-Performing Advances) / Deposits	59.2%	47.6%	67.8%	71.1%
CA Deposits / Deposits	29.7%	26.6%	24.5%	25.2%
SA Deposits / Deposits	42.2%	42.1%	38.8%	35.5%

**4 Credit Risk**

Non-Performing Advances / Gross Advances	5.1%	6.2%	5.1%	5.8%
Non-Performing Finances-net / Equity	12.3%	11.4%	16.3%	16.7%

**Credit Rating**

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High 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>Very high credit risk.</b> 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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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)

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- 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

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- (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)
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)

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- (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)

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