



The Pakistan Credit Rating Agency Limited

Rating Report

Soneri Bank Limited | Tier 1 TFC

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Dec-2019	A	-	Stable	Maintain	-
19-Jun-2019	A	-	Stable	Maintain	-
20-Dec-2018	A	-	Stable	Maintain	-
26-Sep-2018	A	-	Stable	Initial	-
27-Apr-2018	A	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect Soneri Bank’s maintained business profile as reflected by intact system share (end-Sep19: 1.8%, end-Dec18: 1.8%). The bank’s funding base comprise of deposits and borrowings. Markup Income witnessed substantial jump attributable to hike in asset yield and higher earning asset on a period on period basis. The net revenue also grew considerably. Fee & commission based income remained largely same while realized loss on securities & muted economy negated this positive impact. Spread also witnessed slight uptick (end-Sep19: 2.5%; end-Dec18: 2.4%). Reversals in provisioning further supported the overall profitability. Sustainability in NIMR, continued enhancement in non-fund based exposure and sustainable growth in fee income is important for future years. Current deposits witnessed a growth of ~6% in 9MCY19. Deposits recorded good growth however tilted towards term deposits; CASA ratio witnessed meager decline. Non-Performing Loans shrank which led to improvement in impairment ratio. The Investment book has expanded significantly and fueled by borrowings from financial institution. Going forward, the strategy is to mobilize low cost deposits. The bank’s CET-I stands at 10.18% as at end-Sep19. Total CAR stands at 15.2%. The bank has issued additional Tier-1 TFC (PKR 4,000mln) in CY18, which enhanced its capital base, thereby boosting its lending capacity.

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

Name of Rated Entity	Soneri Bank Limited Tier 1 TFC
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	PACRA_Methodology_FI_FY19(Jun-19),PACRA_Methodology_DI Basel III_FY19(Jun-19)
Related Research	Sector Study Commercial Bank(Jun-19)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504



Profile

Structure SNBL commenced operations as a Scheduled Commercial Bank in 1991. The bank is quoted on Pakistan stock exchange under the category of commercial banks.

Background SNBL's registered office is situated at Upper Mall Scheme, Anand Road, Lahore. Its central office is located in Karachi.

Operations SNBL is engaged in provision of banking and financial services. The Bank operates with 296 branches including 21 Islamic banking branches (CY18: 295 branches including 21 Islamic banking branches) in Pakistan.

Ownership

Ownership Structure The current sponsors Feerasta Family - sponsors of the Rupali Group, own 61% stake of the Bank; mainly through three trusts and individuals of the sponsor family followed by NIT. The remaining stake (39%) 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. Inam Elahi and Mr. Jamil Hassan Hamdani.

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 A.F Ferguson & Co, Chartered Accountants, classified in category 'A' by SBP and having a QCR rating have expressed an unqualified opinion for the financials of end-Dec18. The shareholders of the bank, in their 27th AGM held on 28th March 2019, approved the appointment of M/S KPMG Taseer Hadi & Co, Chartered Accountants - classified in category 'A' by SBP's whilst also having QCR rating - as the new auditors of the Bank.

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. Mohammad Aftab Manzoor, the President and CEO since Apr11, is a seasoned banker and carries over three decades of international banking experience. He is supported by Executive Director - Mr. Amin A. Feerasta - who has been associated with the bank since 2000.

Effectiveness SNBL has nine management committees in place; all headed by the CEO, except for one being headed by the CFO. These committees ensure the efficiency of bank's overall operations.

MIS SNBL has deployed ERP solution of Statistical Analytical Software. SAS quantitative risk management software includes integrated, data management and helps its user to manage the entire process from identifying risk to measuring, mitigating and monitoring it on an ongoing basis.

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 During 9MCY19, industry's net advances witnessed meager growth of 1.2% whilst customer deposits' grew by 5.1%. As a result the industry's ADR ratio inched down to 53.6% (end-Dec18: 55.8%). In terms of advances, a predominant portion remained in energy sector followed by textile, individuals and agriculture. Corporate sector claimed the major portion of the borrowings with small amounts going into commodity, consumer and SME sectors. Profitability of the banks inclined, during 9MCY19, to PKR 218bln (19.1% growth YoY) attributable to hike in key policy rate. The industry's NPLs have seen an accretion which is a concern going forward.

Relative Position SNBL, a medium sized bank, holds a total deposit base of PKR 280.5bln (CY18: PKR 262.3bln) whereby system share of deposits remained stagnant at 1.8% as at end-Sep19.

Revenues During 9MCY19, SNBL's mark-up income grew to PKR 26.9bln (9MCY18: PKR 15.1bln) whereby NIMR increased to stand at PKR 5.9bln (9MCY18: PKR 5.0bln), up 18% YoY. This is attributable to hike in both lending and key policy rate. Hence, asset yield witnessed uptick to 9.6% (CY18: 7.0%) whilst spread also witnessed slight uptick to stand at 2.5% (CY18: 2.4%).

Performance During 9MCY19, non-markup income recorded a sharp decline mainly due to realized loss on sale of investments of (PKR 629m) in contrast to the gain recorded in 9MCY18 of PKR 273m. Non-markup expenses inclined to PKR 6.1bln (9MCY18: PKR 5.5bln), up 10.9% YoY. Non-markup expenses to total income increased to 79.6% (CY18: 72.3%). Reversal in provisions (9MCY19: PKR 495m, 9MCY18: PKR 315m) supported the bottom line where net profit was largely maintained at PKR 1.21bln (9MCY18: PKR 1.29bln).

Sustainability Moving ahead, diversification in deposits portfolio is on the horizon to rationalize cost of deposits aiming to improve its CASA mix. This is to channel growth in lending as the bank's ADR (end-Sep19: 71%) is higher compared with the industry average (end-Sep19: 53.6%). Furthermore, there has been sustainable growth on the balance sheet, however borrowings from financial institutions have exhibited on the rise figure. 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 As at end-Sep19, SNBL's gross finances have grown by 7%. Over last few years, bank's ADR has largely remained same at 71% (end-Dec18: 71.1%); higher when compared with industry's average of 53.6%. However, infection ratio delineated meager decline to 5.2% (end-Dec18: 5.8%) owing to reversals. Analysis of lending portfolio reveals that private lending remained at 63% of total advances (end-Dec18: 68%). Outstanding exposure to top-3 sectors reported as 54.81% (end-Dec18: 57%), with Food & Allied, textile and power sector at 29.62%, 13.14% and 12.05% respectively. During CY18, Top-20 private performing clients' concentration inched up to 20% (CY17: 19%).

Market Risk As at end-Sep19, SNBL has an investment book of PKR 210bln (end-Dec18: PKR 146bln) with major investment in Government securities (98.5%). SNBL's exposure in T-bills has decreased to 67% (end-Dec18: 69%), while exposure in PIBs increased to 31.5% (end-Dec18: 29%). This trend has been witnessed throughout the industry due to prevailing expectations of decline in interest rates, going forward.

Liquidity And Funding As at end-Sep19, customer deposits increased to PKR 254bln (end-Dec18: PKR 235bln), up 8%. However, the bank's deposit share in the system is sustained at 1.8%. CA and SA proportion remained at 25.6% (end-Dec18: 25.2%) and 34.7% (end-Dec18: 35.5%) respectively. The bank's liquidity, in terms of Liquid Assets-to-Deposits and Borrowings ratio sustained at 40.1%.

Capitalization At end-Sep19, the bank reported CAR of 15.2% (end-Dec18: 14.7%), comprising of Tier I capital (12.2% - end-Dec18: 11.6%), remaining compliant with the minimum requirement by SBP; owing to slight decline in risk weighted assets & meager increase in Tier-I Capital (driven by growth in ADT1 Capital).



PKR mln

Soneri Bank Limited
Listed Public Limited

Sep-19	Dec-18	Dec-17	Dec-16
9M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	199,870	186,740	165,484	127,322
2 Investments	207,408	143,379	114,472	113,895
3 Other Earning Assets	4,554	4,106	6,709	5,678
4 Non-Earning Assets	49,559	45,271	36,789	32,952
5 Non-Performing Finances-net	2,954	3,001	1,765	1,972
Total Assets	464,345	382,498	325,219	281,819
6 Deposits	280,562	262,379	227,304	209,894
7 Borrowings	149,787	88,959	67,582	41,904
8 Other Liabilities (Non-Interest Bearing)	15,430	13,171	11,829	11,733
Total Liabilities	445,780	364,509	306,715	263,531
Equity	18,565	17,989	18,505	18,289

B INCOME STATEMENT

1 Mark Up Earned	26,986	21,600	18,505	17,524
2 Mark Up Expensed	(21,018)	(14,647)	(12,032)	(10,815)
3 Non Mark Up Income	1,722	3,260	3,456	2,871
Total Income	7,689	10,213	9,928	9,580
4 Non-Mark Up Expenses	(6,118)	(7,380)	(7,003)	(6,454)
5 Provisions/Write offs/Reversals	495	71	(78)	(49)
Pre-Tax Profit	2,066	2,905	2,848	3,077
6 Taxes	(855)	(1,121)	(1,188)	(1,198)
Profit After Tax	1,211	1,784	1,660	1,879

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	1.9%	2.0%	2.1%	2.5%
Non-Mark Up Expenses / Total Income	79.6%	72.3%	70.5%	67.4%
ROE	8.8%	9.8%	9.0%	10.3%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	4.0%	4.7%	5.7%	6.5%
Capital Adequacy Ratio	15.2%	14.7%	12.8%	14.1%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	40.1%	40.3%	37.9%	48.7%
(Advances + Net Non-Performing Advances) / Deposits	71.0%	71.1%	72.3%	59.7%
CA Deposits / Deposits	25.6%	25.2%	27.9%	25.0%
SA Deposits / Deposits	34.7%	35.5%	41.7%	44.3%

4 Credit Risk

Non-Performing Advances / Gross Advances	5.2%	5.8%	5.9%	7.8%
Non-Performing Finances-net / Equity	15.9%	16.7%	9.5%	10.8%

Debt Instrument Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying 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+ **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.
AA
AA-

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.
A
A-

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.
BBB
BBB-

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.
BB
BB-

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.
B
B-

CCC **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.
CC
C

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 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

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- (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.
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- (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)

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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)

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)

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Regulatory and supplementary Disclosure

Nature of Instrument	Size of issue	Issue Date	Years	Security	Quantum of security	Nature of Assets	Book value of Assets (PKR mln)	Trustee
Listed Tier-1 TFC	PKR 4bln Inclusive of Green Shoe option of PKR 1bln	Dec,18	Perpetual	N/A	N/A	N/A	N/A	Pak Brunei Investment Company Limited

Soneri Bank Limited Tier-1 TFC DEC '18									
Due Date Principle*	Opening Principal		Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit Rate	6M Kibor	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln						PKR in mln		
N/A									