



The Pakistan Credit Rating Agency Limited

Rating Report

Soneri Bank Limited | Tier 1 TFC

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2021	A	-	Stable	Maintain	-
25-Jun-2020	A	-	Stable	Maintain	-
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 a 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 is important for future years. Attrition in advances, compared to meagre growth observed by industry, led to an 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 are 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 a 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	Methodology FI (Jun-20),Methodology DI Basel III(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Commercial Bank(Jun-21)
Rating Analysts	Timnat Thomas timnat.thomas@pacra.com +92-42-35869504

**Issuer Profile**

Profile Soneri Bank Limited (“SNBL” or the “Issuer”), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1991. The Bank is engaged in the 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 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 the general public.

Governance The overall control of the Bank vests with an eight-member board of directors (BoD), including the CEO. Three of the board members are nominees of the 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. There are six board committees that assist the board in effective oversight of the Bank’s overall operations on relevant matters. KPMG Taseer Hadi & Co., Chartered Accountants have expressed an unqualified opinion on the financial statement for the year ended 31st December 2020. PACRA has assigned AA-/ A1+ (Double A plus and A one plus) ratings to Soneri Bank.

Management SNBL’s management team comprises 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. SNBL has nine management committees in place; all headed by the CEO.

Business Risk The indicators of the banking sector reflected a mixed trend where the economy is recovering from the effects of the COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to the COVID-19 outbreak, the banking sector managed to grow at a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bn (CY19: PKR 15,953bn) 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 11,935bn; CY19: PKR 8,939bn) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid the 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 the deferment period allowed, the aftermath is yet to be comprehended by the industry. SNBL, a small-sized bank, deposits have grown by 14.3% in CY20 to PKR 345.5bn wherein diversification in deposits portfolio mix has also improved and CASA mix reported at 67.2% (CY19: 62.0%). The market share of deposits of the Bank remained stagnant at 1.8% (CY19: 1.8%). Moving ahead, the Bank intends to expand its branch network to assist outreach further – 32 branches opened during CY20.

Financial Risk During CY20, SNBL’s NIMR witnessed an increase of ~34.6% YOY to stand at PKR 10.7bn (CY19: PKR 7.9bn), with Markup income witnessing an increase of ~9% YOY to stand at PKR 42.2bn (CY19: PKR 38.7bn), driven by the volumetric increase in investments in government securities. 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. Net profit increased by ~26% and stood at PKR 2.4bn (CY19: PKR 1.9bn). During 1QCY21, the bottom line is further strengthened by 91.6% YoY to stand at PKR 782mln (1QCY20: PKR 407mln). As at end-Dec20, SNBL has an investment book of PKR 250bn (end-Dec19: PKR 177bn) which is majorly skewed towards Government securities (~97%). At end-Dec20, customer deposits increased to PKR 295bn (end-Dec19: PKR 262bn), up by 12.6% while the Bank reported CAR of 17.0%, comprising of Tier I capital (14.1%), remaining compliant with the minimum requirement by SBP.

Instrument Rating Considerations

About The Instrument Soneri Bank Limited issued perpetual, unsecured, subordinated, rated, listed, and non-cumulative term finance certificate (“TFC” or the “Issue” or “Instruments”) The issue amounts to PKR 4bn inclusive of a Green Shoe option of PKR 1bn. The profit is being paid off semiannually at the rate of 6M KIBOR +200bps on a non-cumulative basis on the outstanding principal amount of the issue. The amount raised through this Issue, subject to necessary corporate and regulatory approvals, contributed towards SNBL’s Additional Tier 1 Capital in accordance with SBP guidelines on capital adequacy. Furthermore, the amount raised utilized in SNBL’s normal business operations as permitted under its Memorandum & Articles of Association. Profit payments will only be paid from SNBL’s most recent/current year’s earning on a non-cumulative basis subject to the SNBL’s compliance with SBP regulatory guidelines on Minimum Capital Requirement (“MCR”) and Capital Adequacy Ratio (“CAR”).

Relative Seniority/Subordination Of Instrument The Issue will be unsecured and subordinated to payment of principal and profit of all other claims except ordinary shares. In addition to the Lock In Clause, the Instrument will be subject to 1) loss absorption upon the occurrence of a Pre-Specified Trigger (“PST”) i.e. issuer’s CET1 ratio falls to/below 6.625% of Risk-Weighted Assets; and 2) loss absorption and/or any other requirements of SBP upon the occurrence of a Point of Non-Viability (“PONV”). Upon reaching the pre-defined trigger point or point of non-viability (PONV), the Tier I TFC may be partially or fully converted into equity/written off as per the discretion/instructions of SBP.

Credit Enhancement The Instrument is unsecured.



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
Total Assets	544,478	485,345	442,541	382,498
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
Total Liabilities	522,655	462,188	422,327	364,509
Equity	21,823	23,157	20,214	17,989

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
Total Income	3,681	14,463	10,787	10,213
4 Non-Mark Up Expenses	(2,528)	(9,026)	(8,129)	(7,380)
5 Provisions/Write offs/Reversals	123	(1,402)	589	71
Pre-Tax Profit	1,276	4,035	3,247	2,904
6 Taxes	(494)	(1,634)	(1,341)	(1,121)
Profit After Tax	782	2,400	1,906	1,783

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
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+	
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-	
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.

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
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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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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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- 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.
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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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- (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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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Listed Tier-I TFC	4 Bln Inclusive of Green Shoe option of PKR1 bln	Perpetual	N/A	N/A	N/A	Pak Brunei Investment Company Limited	N/A

Soneri Bank Limited TFC I Redemption Schedule								
Due Date Principle	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate	6MK + 2.0%	Markup/Profit Payment	Installment Payable	Principal Outstanding
	<i>PKR in mln</i>							<i>PKR in mln</i>
Issuance								
N/A for TFC's with Perpetual Tenor								
	-					-	-	