The Pakistan Credit Rating Agency Limited

Rating Report

Soneri Bank Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	AA-	A1+	Stable	Maintain	-
25-Jun-2022	AA-	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The ratings reflect Soneri Bank’s stable leadership since the inception of the bank along with its maintained business profile. Over the years, the system share of the bank in terms of deposits has largely remained intact (end-Dec22: 1.6%, end-Dec21: 1.7%). The bank was working on the composition of the deposit base and also improving its cost structure. During CY22, SNBL’s customer deposits observed growth of 6%, where CASA recorded further improvement (CY22: 79.2%; CY21: 69.8%) with greater contribution from CA (CY22: 32.7%; CY21: 27.2%). The advances book reflected an increase, subsequently, the infection ratio declined (CY22: 4.7%; CY21: 5.9%). The NIMR of the bank witnessed an improvement (CY22: PKR 11.2bln; PKR 10.9bln). Higher reversals recorded have supplemented the profitability. The increase in the overall cost structure has caused the net profitability of the bank to decline (CY22: PKR 1.9bln; CY21: PKR 2.8bln). Consequently, the spread remained stagnant (CY22: 2.6%; CY22: 2.6%). The Bank has expressed an intention to improve its NPL coverage. There is an improving trend expected as the bank closes the ongoing year. During 1QFY23, the net profitability of the bank recorded a sizable improvement to PKR 1.48bln. Going forward enhanced deposit mobilization will remain vital in maintaining system share. Sustainability in net markup income & non-markup income and continued enhancement in non-fund-based exposure is important for future years. Going forward, the strategy is to strengthen the existing good relationships and digital platform by offering various unique solutions to its customers. At end-Mar23, the total CAR of the bank stands at 14.8% (end-Dec22: 15.2%) with the Tier I ratio clocking in at 12.6% (end-Dec22: 12.9%), reflecting an adequate cushion for growth. The bank issued Tier-II TFC (PKR 4,000mln) in CY22, which enhanced its capital base, thereby boosting its lending capacity. The country’s economy has gone through several varied phases in the last few years. Looking ahead, the macroeconomic landscape is fraught with numerous challenges, including political instability, elevated interest rates, demand tightening, sizable rupee depreciation, and heightened inflation, all of which reverberate across all sectors of the economy.

The rating is a function of the bank's ability to maintain its market position in the banking industry while strengthening its overall risk profile. Bringing efficiency to the 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
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Financial Institution Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Commercial Bank(Jun-23)
Rating Analysts	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. The bank is quoted on the Pakistan stock exchange under the category of commercial banks.

Background Soneri Bank's registered office is situated on the 2nd Floor, 307-Upper Mall Scheme, Lahore, while its central office is located on the 10th Floor, PNSC Building, M.T. Khan Road, Karachi.

Operations The Bank is engaged in the provision of banking and financial services. The bank also provides Internet and mobile banking services to its customers. At end-Mar23, the Bank operates with 403 (end-Dec 22: 403) branches including 40 Islamic banking branches, and 15 Islamic banking windows in Pakistan.

Ownership

Ownership Structure The Feerasta Family - sponsors of the Rupali Group, own a 64.90% stake in the Bank; mainly through three trusts and individuals of the sponsor family. Other shareholders mainly include NBP which through NIT holds a 9.30% stake. The remaining stake is 25.80% is widely spread among financial institutions and the general public.

Stability The ownership structure of the Company is seen as stable as no material ownership changes are expected in the future. The majority stake rests with the Feerasta family.

Business Acumen The Feerasta Family has been associated with a diverse set of businesses, for the last few decades and has been successfully managing them. Their business acumen is considered good.

Financial Strength Given that Soneri Bank 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 an eight-member Board of Directors (BoD) comprising four non-executive directors, three independent directors, and one executive director (CEO). Three of the Board members are nominees of the Feerasta family while one is an NIT representative. Mr. Alauddin J. Feerasta is chairman of the board. Independent directors on the Board are Ms. Navin Salim Merchant, Mr. Jamil Hassan Hamdani and Mr. Tariq Hafeez Malik & one NIT nominee director, Mr. Manzoor Ahmed.

Members' Profile The Board members carry an extensive professional experience in banking and other sectors. The BoD provides overall guidance in managing risks associated with the bank's operations and strategic direction.

Board Effectiveness There are six board committees; i) Audit ii) Risk & Compliance iii) Human Resource and Remuneration, iv) Credit, v) Independent Directors, and vi) Information Technology Committee which assist the board in the effective oversight of the bank's overall operations on relevant matters.

Financial Transparency KPMG Taseer Hadi & Co., Chartered Accountants, classified in category 'A' by SBP and having a satisfactory QCR rating are the external auditors for SNBL. They expressed an unqualified opinion on the financial statement for the year ended 31st December 2022.

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 experienced individuals. Mr. Muhtashim Ahmad Ashai is President and CEO, is a seasoned banker, and carries almost three decades of banking experience. He is supported by the Deputy CEO, Mr. Amin A. Feerasta – a member of the Feerasta family – who has been associated with the bank since 1999. Before his role as Deputy CEO, Mr. Feerasta served in various positions as Chief Operating Officer and head of the department. Moreover, Mr. Ahsan Mushahid has recently joined SNBL's team as Chief Operating Officer, he is a seasoned banker with over 29 years of banking experience.

Effectiveness SNBL has nine management committees in place; all headed by the CEO. The committees are i) Management, ii) Executive Credit, iii) Assets & Liability, iv) Investment, v) I.T Steering, vi) Credit Risk Management, vii) Business Continuity Plan Steering, viii) Operational Risk Management Committee and ix) Compliance Committee.

MIS The Bank made substantial investments to add value to its risk management framework by purchasing software from AFS Solutions as a replacement for SAS solutions and 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 country's economy has gone through several varied phases in the last few years. Pakistan posted a GDP growth rate of 1.69% in 9MFY23 and 4.71% in FY22 (GDP growth figures were revised after the base year was changed from FY05-06 to FY15-16). The banking sector continues to flourish with high profitability. Total banking assets posted growth of 18.5% YoY whilst investments surged by 25% YoY to PKR 18.0trln (end-Dec21: PKR 14.4trln). Gross Advances of the sector recorded growth (16%) to stand at PKR 12.6trln (end-Dec21: PKR 10.9trln). Non-performing loans witnessed an increase to PKR 924bln. The Capital Adequacy Ratio remained intact at 17% (regulatory requirement of 11.5%). However, declined in Mar-23 to 15%.

Relative Position SNBL, a small-sized Bank, holds a customer deposit base of PKR 352bln at end-Dec22 (end-Dec21: PKR 334bln). The market share of deposits of the Bank inched down to 1.6% (end-Dec21: 1.7%).

Revenues During CY22, SNBL's NIMR witnessed a marginal increase of 3% YoY to stand at PKR 11.3bln (CY21: PKR 10.9bln) with markup income witnessing an increase of 70% YoY to stand at PKR 63bln (CY21: PKR 37.1bln). Subsequently, the Asset yield of the bank inclined to 12.3% (CY21: 8%). Whereas, the Bank's cost of funds inclined to 9.7% (CY21: 5.4%). Consequently, Bank's spread remained stagnant at 2.6% (CY21: 2.6%). During 1QCY23, NIMR increased by 68% to stand at PKR 4.84bln (1QCY22: PKR 2.87bln). Subsequently, the spread stood at 4.2%.

Performance During CY22, non-mark-up income increased by 20% to stand at PKR 5.15bln (CY21: PKR 4.29bln) mainly due to higher fee and commission income (CY22: PKR 2,430mln; CY21: PKR 2,074mln). Non-markup expenses inclined by 20% YoY to PKR 12.24bln (CY21: PKR 10.19bln). Consequently, non-markup expenses to total income increased to 74.6% (CY21: 66.9%). Net profit decreased by 34% to stand at PKR 1.9bln (CY21: PKR 2.8bln). During 1QCY23, the net profit increased to PKR 1.5bln (1QCY22: PKR 543mln).

Sustainability Moving ahead, the Bank intends to expand its branch network to assist outreach further – During CY22, 36 Branches opened including 15 Islamic banking windows. 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 with minimum capital requirements.

Financial Risk

Credit Risk At end-Dec22, SNBL's net advances have increased by 26% to stand at PKR 208.4bln (end-Dec21: 165.5bln). Bank's ADR was reported at 50.9% (end-Dec21: 41.1%). The infection ratio decreased to 4.7% (end-Dec21: 5.9%). At end-Mar23, advances were recorded at PKR 173.7bln while the infection ratio increased to 5.8%.

Market Risk At end-Dec22, SNBL has an investment book of PKR 258bln (end-Dec21: PKR 327bln) with majorly skewed towards Government securities (99%). At end-Mar23, the investment book of the bank inclined to PKR 302bln.

Liquidity And Funding At end-Dec22, customer deposits increased to PKR 352bln (end-Dec21: PKR 334bln), up by 6%. CA and SA proportions stood at 32.7% (end-Dec21: 27.2%) and 46.5% (end-Dec21: 42.6%). At end-Mar23, The deposits have grown by 8% to stand at PKR 443bln (end-Dec22: PKR 409bln). CA and SA proportions stood at 33.4% and 46.5% respectively.

Capitalization At end-Dec22, the bank reported CAR of 15.2%, comprising Tier I capital (12.9%), remaining compliant with the minimum requirement by SBP. At end Mar23, the bank reported a capital adequacy ratio of 14.8% comprising Tier I capital 12.6%

PKR mln

Soneri Bank Limited Listed Public Limited	Mar-23 3M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Total Finances - net	173,983	208,621	166,661	165,910
2 Investments	299,093	254,992	323,892	245,953
3 Other Earning Assets	51,848	52,339	22,113	8,957
4 Non-Earning Assets	71,208	60,980	64,455	61,888
5 Non-Performing Finances-net	2,788	2,828	2,366	2,637
Total Assets	598,920	579,760	579,489	485,345
6 Deposits	443,004	409,643	403,037	345,499
7 Borrowings	108,300	123,728	131,578	94,015
8 Other Liabilities (Non-Interest Bearing)	26,996	25,243	23,239	22,675
Total Liabilities	578,300	558,614	557,853	462,188
Equity	20,620	21,146	21,636	23,157
B INCOME STATEMENT				
1 Mark Up Earned	19,701	63,057	37,133	42,228
2 Mark Up Expensed	(14,862)	(51,790)	(26,196)	(31,573)
3 Non Mark Up Income	1,770	5,157	4,290	3,807
Total Income	6,609	16,424	15,228	14,463
4 Non-Mark Up Expenses	(3,497)	(12,245)	(10,191)	(9,026)
5 Provisions/Write offs/Reversals	(417)	375	112	(1,402)
Pre-Tax Profit	2,694	4,554	5,149	4,035
6 Taxes	(1,205)	(2,671)	(2,295)	(1,634)
Profit After Tax	1,489	1,883	2,854	2,400
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.3%	1.9%	2.1%	2.3%
Non-Mark Up Expenses / Total Income	52.9%	74.6%	66.9%	62.4%
ROE	28.5%	8.8%	12.7%	11.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	3.4%	3.6%	3.7%	4.8%
Capital Adequacy Ratio	14.8%	15.2%	13.8%	17.0%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	55.0%	44.2%	63.3%	61.8%
(Advances + Net Non-Performing Advances) / Deposits	39.2%	50.9%	41.1%	47.6%
CA Deposits / Deposits	33.4%	32.7%	27.2%	26.6%
SA Deposits / Deposits	46.5%	46.5%	42.6%	42.1%
4 Credit Risk				
Non-Performing Advances / Gross Advances	5.8%	4.7%	5.9%	6.2%
Non-Performing Finances-net / Equity	13.5%	13.4%	10.9%	11.4%

Credit Rating

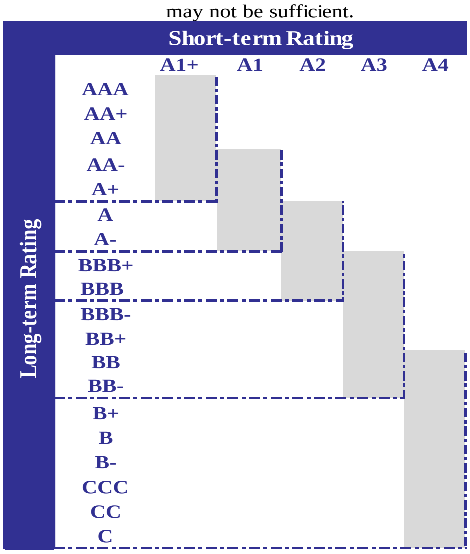
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	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 surveill 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

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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 | Clause 11-(A)(p).
(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)
(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)

Independence & Conflict of interest
(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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