The Pakistan Credit Rating Agency Limited

Rating Report

Soneri Bank Limited | Tier 1 TFC

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2024	A	-	Stable	Maintain	-
28-Dec-2023	A	-	Stable	Maintain	-
23-Jun-2023	A	-	Stable	Maintain	-
25-Jun-2022	A	-	Stable	Maintain	-
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 the astute leadership of Soneri Bank’s (or the "Bank"). This has been the driving force behind the bank's sustainable business profile over the years. The bank saw a robust 27% growth in deposits during CY23, driven by a steady CASA ratio of 79%. Of note, Islamic deposits constituted 8.3% of the total. The bank's lending portfolio showed a slight decline, resulting in an ADR down from 40% (CY22: 51%). Despite this, Soneri Bank maintained a strong NPL coverage of 81%, with a slight increase in the infection ratio to 5.1% (CY22: 4.7%). Financially, Soneri Bank's net profitability surged by 2.2 times primarily due to a significant increase in net markup income, supported by a favorable high-interest rate environment in CY23. The bank anticipates some pressure on net interest margins due to expected rate cuts, although revenue from non-core income streams is poised to mitigate this effect. In terms of market presence, Soneri Bank commands a 6% share in the trade business, reflecting its strengthened position. The bank's equity rose to PKR 29bln in CY23 from (CY22: PKR 21bln), with a robust (CAR) of 18.4%, up from 15.2% in CY22. Looking ahead, Soneri Bank aims to continue enhancing its deposit base, sustain growth in net markup and non-markup income, and expand its digital platforms to offer innovative solutions to customers, thereby strengthening its market position and operational efficiency.

Bringing efficiency to the operational structure is important for long-term growth. 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 | Financial Institution Rating(Oct-23),Methodology | Debt Instrument Rating(Dec-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Commercial Banks(Jun-24)
Rating Analysts	Madiha Sohail | madiha.sohail@pacra.com | +92-42-35869504

Issuer Profile

Profile 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. 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. 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-Dec 23, the Bank operates with 443 (end-Dec 22: 403) branches including 45 Islamic banking branches, and 15 Islamic banking windows.

Ownership The Feerasta Family - sponsors of the Rupali Group own a 70.11% stake in the Bank; mainly through three trusts and individuals of the sponsor family. Other shareholders mainly include NBP which through NIT holds a 9.11% stake. The remaining stake is 20.78%, which is widely spread among financial institutions and the general public. 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. 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. Given that Soneri Bank is the flagship business of sponsors, willingness to support the Bank in case the need arises is considered high.

Governance 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. Amin A. Feerasta is the newly appointed chairman after the sad demise of late Mr. Allaudin J. Feerasta this year. Independent directors on the Board are Ms. Navin Salim Merchant, Mr. Jamil Hassan Hamdani, Mr. Tariq Hafeez Malik. 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. 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 assists the board in the effective oversight of the bank’s overall operations on relevant matters. 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 2023.

Management Overall operations have been divided into thirteen functions and organized into Northern, Central, and Southern regions for effective management and control. SNBL’s management team comprises experienced individuals. Mr. Muhtashim Ahmad Ashai is the President and CEO, is a seasoned banker, and carries almost three decades of banking experience. 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.The Bank made substantial investments to add value to its risk management framework and upgraded its ORR monitoring and related systems through in-house developments and external consultant support. Moreover, the Bank has also upgraded its data center and disaster recovery solutions and has also deployed a data warehouse to support the business functions. 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 CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan's banking sector's total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3%% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 18.5% (end-Dec22: 15.5%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24. SNBL, a small-sized Bank, holds a customer deposit base of PKR 429bln at end-Dec23 which has significantly increased from last year's customer deposit (end-Dec22: PKR 352bln).During CY23, SNBL’s Net markup income witnessed a significant increase of 102% YoY to stand at PKR 22.7bln (CY22: PKR 11.3bln) with markup income witnessing an increase of 56% YoY to stand at PKR 98bln (CY22: PKR 63bln). Subsequently, the Asset yield of the bank inclined to 19.1% (CY22: 12.3%). Whereas, the Bank’s cost of funds inclined to 13.3% (CY22: 9.7%). Consequently, the Bank’s spread also increased to 5.7% (CY22: 2.6%). During CY23, non-mark-up income increased by 25% to stand at PKR 6.45bln (CY22: PKR 5.15bln) mainly due to higher fee and commission income (CY23: PKR 3,086mln; CY22: PKR 2,430mln). Non-markup expenses inclined by 26% YoY to PKR 15.47bln (CY22: PKR 12.24bln). The non-markup expenses to total income decreased to 52.9% (CY22: 74.6%). Net profit increased by 223% to stand at PKR 6.0bln (CY22: PKR 1.8bln). Moving ahead, the Bank intends to expand its branch network to assist outreach further – During CY23, 40 Branches opened with 15 more branches added in Q-1 of 2024. 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 At end-Dec23, SNBL's net advances have in decreased by 1.29% to stand at PKR 205.7bln (end-Dec22: 208.4bln). The bank's ADR was reported at 39.7% (end Dec22: 50.9%). The infection ratio increased to 4.9% (end-Dec 22: 4.7%). This was driven by the reduction of the advance base, despite a slight increase in NPLs (End-Dec23: 10.5bln, end-Dec22: 10.1bln) The bank's investment portfolio witnessed a 20.1% increase in CY23 at end-Dec23, SNBL has an investment book of PKR 310bln (end-Dec22: PKR 258bln) with majorly skewed towards Government securities (99%). At end-Dec23, customer deposits increased to PKR 429bln (end-Dec22: PKR 352bln), up by 21.8%. CA stood at 30.4% (end-Dec22: 32.7%) and SA stood at 48.8% (end-Dec22: 46.5%). However, Soneri Bank's CASA ratio stood at 79.2% at the end of 2023. The bank has consistently maintained a commendable Capital Adequacy Ratio (CAR) that exceeds regulatory requirements, ensuring a secure financial position. In CY23, the bank reported CAR of 18.4% exhibiting improvement from the previous year's 15.5%.

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 4bln inclusive of a Green Shoe option of PKR 1bln. 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 the 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	Dec-23 12M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Total Finances - net	206,491	208,621	166,661	165,910
2 Investments	307,563	254,992	323,892	245,953
3 Other Earning Assets	0	52,339	22,113	8,957
4 Non-Earning Assets	142,467	60,980	64,455	61,888
5 Non-Performing Finances-net	2,041	2,828	2,366	2,637
Total Assets	658,562	579,760	579,489	485,345
6 Deposits	517,869	409,643	403,037	345,499
7 Borrowings	76,740	123,728	131,578	94,015
8 Other Liabilities (Non-Interest Bearing)	35,339	25,243	23,239	22,675
Total Liabilities	629,949	558,614	557,853	462,188
Equity	28,613	21,146	21,636	23,157
B INCOME STATEMENT				
1 Mark Up Earned	98,033	63,057	37,133	42,228
2 Mark Up Expensed	(75,275)	(51,790)	(26,196)	(31,573)
3 Non Mark Up Income	6,459	5,157	4,290	3,807
Total Income	29,217	16,424	15,228	14,463
4 Non-Mark Up Expenses	(15,471)	(12,245)	(10,191)	(9,026)
5 Provisions/Write offs/Reversals	(1,389)	375	112	(1,402)
Pre-Tax Profit	12,357	4,554	5,149	4,035
6 Taxes	(6,282)	(2,671)	(2,295)	(1,634)
Profit After Tax	6,075	1,883	2,854	2,400
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.7%	1.9%	2.1%	2.3%
Non-Mark Up Expenses / Total Income	53.0%	74.6%	66.9%	62.4%
ROE	24.4%	8.8%	12.7%	11.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	4.3%	3.6%	3.7%	4.8%
Capital Adequacy Ratio	18.4%	15.2%	13.8%	17.0%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	56.2%	44.2%	63.3%	61.8%
(Advances + Net Non-Performing Advances) / Deposits	39.7%	50.9%	41.1%	47.6%
CA Deposits / Deposits	30.4%	32.7%	27.2%	26.6%
SA Deposits / Deposits	48.8%	46.5%	42.6%	42.1%
4 Credit Risk				
Non-Performing Advances / Gross Advances	4.9%	4.7%	5.9%	6.2%
Non-Performing Finances-net / Equity	7.1%	13.4%	10.9%	11.4%

Credit Rating

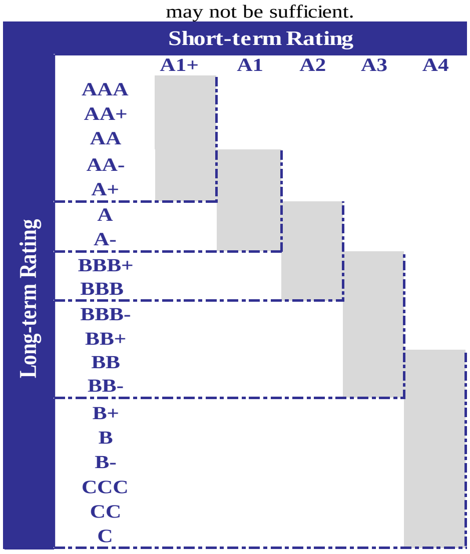
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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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 | Clause 11-(A)(p).
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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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(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
		PKR in mln						*PKR in mln*
Issuance								
N/A for TFC's with Perpetual Tenor								
		-				-	-	