



# Soneri Bank

SBL/Secy/PSX/19/427  
20 December 2019

**The General Manager**  
Pakistan Stock Exchange Limited  
Stock Exchange Building  
Stock Exchange Road,  
Karachi.

Through PUCARS & hand delivery

**Subject:** Semi-annual credit rating of TFC – II of Soneri Bank Limited

Dear Sir,

We are writing with reference to captioned subject.

In this regard, we are pleased to enclose herewith attested copy of the semi-annual credit rating report issued by Pakistan Credit Rating Agency (PACRA) in compliance of special condition imposed by the Securities & Exchange Commission of Pakistan vide their letter No.SMD/Co.57(1)/04/2015 dated 12.06.2015.

In the attached report, PACRA has maintained instrument's rating at A+ stable outlook.

Thanking you.

Yours truly,

**Muhammad Altaf Butt**  
Company Secretary

Encl: a.a.



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Soneri Bank Limited | TFC II | Jul-15**

**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
19-Dec-2019	A+	-	Stable	Maintain	-
19-Jun-2019	A+	-	Stable	Maintain	-
20-Dec-2018	A+	-	Stable	Maintain	-
14-Jun-2018	A+	-	Stable	Maintain	-
15-Dec-2017	A+	-	Stable	Maintain	-
16-Jun-2017	A+	-	Stable	Maintain	YES
16-Dec-2016	A+	-	Stable	Maintain	-
17-Jun-2016	A+	-	Stable	Maintain	-
17-Dec-2015	A+	-	Stable	Maintain	-
17-Jun-2015	A+	-	Stable	Maintain	-
08-May-2015	A+	-	Stable	Initial	-
29-Jan-2015	A+	-	-	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-I 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   TFC II   Jul-15
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

**ATTESTED**  
**SONERI BANK LIMITED**  
  
**MUHAMMAD ALTAF BUTT**  
**COMPANY SECRETARY**



# Commercial Bank

The Pakistan Credit Rating Agency Limited

## 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 (~29%) 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 ADTI 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
<b>Total Assets</b>	<b>464,345</b>	<b>382,498</b>	<b>325,219</b>	<b>281,819</b>
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
<b>Total Liabilities</b>	<b>445,780</b>	<b>364,509</b>	<b>306,715</b>	<b>263,531</b>
<b>Equity</b>	<b>18,565</b>	<b>17,989</b>	<b>18,505</b>	<b>18,289</b>

#### 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
<b>Total Income</b>	<b>7,689</b>	<b>10,213</b>	<b>9,928</b>	<b>9,580</b>
4 Non-Mark Up Expenses	(6,118)	(7,380)	(7,003)	(6,454)
5 Provisions/Write offs/Reversals	495	71	(78)	(49)
<b>Pre-Tax Profit</b>	<b>2,066</b>	<b>2,905</b>	<b>2,848</b>	<b>3,077</b>
6 Taxes	(855)	(1,121)	(1,188)	(1,198)
<b>Profit After Tax</b>	<b>1,211</b>	<b>1,784</b>	<b>1,660</b>	<b>1,879</b>

#### 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.





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-II TFC	PKR 3Bln	July,15	8	Instrument will be unsecured and subordinated as to payment of principal and profit to all other indebtedness of the bank, including deposits and will not be redeemable before maturity without prior approval of SBP	N/A	N/A	N/A	Pak Brnci Investment Company Limited

South Bank Limited   Tier-II TFC   July '15									
Due Date Principle*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit Rate	6M Kibor (Assumed at 13.49% with 50 bps decline over the next year)	Markup/Profit Payment	Installment Payable	Principal Outstanding	
	PKR in mln					PKR in mln			
	Issuance							3,000.00	
6 months from issuance	3,000.00	0.60	6 months from issuance	6 Month Kibor +1.35%				2,999.40	
12 months from issuance	2,999.40	0.60	12 months from issuance	6 Month Kibor +1.35%				2,998.80	
18 months from issuance	2,998.80	0.60	18 months from issuance	6 Month Kibor +1.35%				2,998.20	
24 months from issuance	2,998.20	0.60	24 months from issuance	6 Month Kibor +1.35%				2,997.60	
30 months from issuance	2,997.60	0.60	30 months from issuance	6 Month Kibor +1.35%				2,997.00	
36 months from issuance	2,997.00	0.60	36 months from issuance	6 Month Kibor +1.35%				2,996.40	
42 months from issuance	2,996.40	0.60	42 months from issuance	6 Month Kibor +1.35%				2,995.80	
48 months from issuance	2,995.80	0.60	48 months from issuance	6 Month Kibor +1.35%				2,995.20	
54 months from issuance	2,995.20	0.60	54 months from issuance	6 Month Kibor +1.35%	13.13%	216.85	217.45	2,994.60	
60 months from issuance	2,994.60	0.60	60 months from issuance	6 Month Kibor +1.35%	13.49%	222.20	222.80	2,994.00	
66 months from issuance	2,994.00	0.60	66 months from issuance	6 Month Kibor +1.35%	12.99%	214.67	215.27	2,993.40	
72 months from issuance	2,993.40	0.60	72 months from issuance	6 Month Kibor +1.35%	12.49%	207.14	207.74	2,992.80	
78 months from issuance	2,992.80	0.60	78 months from issuance	6 Month Kibor +1.35%	11.99%	199.62	200.22	2,992.20	
84 months from issuance	2,992.20	0.60	84 months from issuance	6 Month Kibor +1.35%	11.99%	199.58	200.18	2,991.60	
90 months from issuance	2,991.60	0.60	90 months from issuance	6 Month Kibor +1.35%	11.99%	199.54	200.14	2,991.00	
96 months from issuance	2,991.00	2,991	96 months from issuance	6 Month Kibor +1.35%	11.99%	199.50	3,190.50	-	
		3,000.00				1,659.10	4,654.30		

