RATING REPORT

Sindh Bank Limited

REPORT DATE:
July 03, 2015

RATING ANALYSTS:
Waqas Munir, FRM
waqas.munir@jcrvis.com.pk

Moiz Badshah
moiz.badshah@jcrvis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA	A-1+	AA	A-1+
Outlook	Stable		Stable	
Date	*June 30, '15*		*December23, '14*	

COMPANY INFORMATION

Incorporated in 2010	External auditors (2014): **Grant Thornton Anjum Rahman, Chartered Accountants**
Public Unlisted Company	Chairman of the Board: Mr. **Afzal Ghani**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. **Muhammad Bilal Sheikh**
Government of Sindh, Finance Department – 100.0%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: *http://www.jcrvis.com.pk/images/primercb.pdf*

Sindh Bank Limited

OVERVIEW OF THE INSTITUTION

Sindh Bank Limited was incorporated as a public limited unlisted company in October 2010. Government of Sindh has 100% shareholding in the bank. The bank was operating with a network of 225 branches at end-2014.

RATING RATIONALE

Sindh Bank Limited (SBL) is a wholly owned entity of the Government of Sindh (GoS) through its Finance Department. The stand-alone financial risk profile of the bank is considered largely sound; the strong liquidity and capitalization indicators are balanced by the high levels of concentration in both the deposit and loan books of the bank. The term of current President is due to end in November, 2015. Appointment of his successor and changes in future business strategy of the bank, if any, will be evident over time.

SBL is a small sized bank with a market share (in terms of deposits) of 0.7% at end-FY14 (FY13: 0.6%). The current deposit mix features high level of concentration while the deposit cost is also relatively high. In line with its strategic plan, the bank continued to expand its footprint, with 25 new branches (20 conventional and 5 Islamic) opened during FY14 and will further add 25 branches (17 conventional and 8 Islamic) during 2015. This is likely to contribute positively to the bank's ability to pursue broad based growth in deposits over time; at year-end, top 10 deposits comprised around one-third of the overall deposit base. Meanwhile, the high cost of deposits may partly be attributable to an increasing share of GoS deposits, which are priced at higher level; deposits from GoS represented around one-fourth of the overall deposit base.

Based on contractual maturities, there is a sizeable maturity mismatch in short term buckets as the bank's PIB holdings have been financed by way of short term repo borrowings. This risk is largely mitigated by the liquidity profile of assets. Adjusted for repo borrowings, liquid assets in relation to deposits & borrowings were reported at 50.1% at end-1QFY15 (FY14: 54.7%; FY13: 61.4%).

Equity to total assets, while declining over time, has remained adequate; further to an initial paid-in capital of Rs. 10b, the capital base of the bank has augmented over time on the back of retained earnings. Capital level is considered adequate to absorb further growth as laid down in the business plan. Market risk carried on books has increased over time, in view of built-up of long term fixed rate bonds, in anticipation of decline in interest rates. Equity market exposure has also increased, representing 16.2% (FY13: 16.5%) of the bank's own equity.

While increasing on a timeline basis, the reported non-performance in the advances portfolio has remained under 1%. Moreover, the bank has created sizeable amount of general provisions for future credit losses. To that extent, the bank will be able to absorb the impact of fresh accretion of NPLs; external auditors have identified exposures aggregating Rs. 5.1b as required to be placed under watch-list, in view of the weak financial health of counterparties. The portfolio features client and sector wise concentration; broadening of customer relationships is warranted to spread out the risk exposures. Going forward, lending strategy of the bank envisages increased penetration in the SME sector while commodity related exposure is expected to remain sizeable.

On the back of an expanding resource base, core earnings of SBL increased in FY14. Profitability is expected to remain strong in the on-going year as well. If the current low interest rate environment persists beyond 2015, the banking sector spreads are likely to come under pressure; in this scenario, cost of funding and the cost of doing business will need to be managed more efficiently in addition to exploring sources of fee based income in order to maintain profitability indicators.

FINANCIAL SUMMARY

(amounts in PKR millions)

BALANCE SHEET	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Total Investments	59,467	36,786	62,631
Advances	41,185	26,565	19,282
Total Assets	124,871	75,033	92,291
Borrowings	46,077	16,758	48,602
Deposits & other accounts	61,884	45,756	31,470
Tier-1 Equity	12,777	11,702	11,037
Net Worth	14,102	11,327	11,088
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Mark-up Income	3,345	2,258	2,038
Net Provisioning	21	22	1
Non-Markup Income	956	860	527
Operating Expenses	2,740	2,142	1,278
Profit Before Tax	1,612	953	1,286
Profit After Tax	1,079	666	887
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Market Share (Advances) (%)	0.92%	0.65%	0.50%
Market Share (Deposits) (%)	0.74%	0.61%	0.47%
Gross Infection (%)	0.8%	0.2%	0.0%
Net Infection (%)	0.8%	0.2%	0.0%
Cost of deposits (%)	6.3%	5.5%	6.9%
Net NPLs to Tier-1 Capital (%)	2.5%	0.4%	0.0%
Capital Adequacy Ratio (C.A.R (%))	22.57%	23.97%	38.51%
Markup Spreads (%)	4.7%	2.4%	-1.2%
Efficiency (%)	70.9%	81.0%	55.4%
Basic ROAA (%)	1.4%	0.6%	1.1%
ROAA (%)	0.4%	0.9%	1.0%
ROAE (%)	8.7%	4.0%	8.9%
Liquid Assets to Deposits & Borrowings (%)	54.7%	61.4%	68.6%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Sindh Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
12/23/2014	AA	A-1+	Stable	Upgrade
6/30/2014	AA-	A-1+	Positive	Maintained
6/28/2013	AA-	A-1+	Stable	Maintained
5/21/2012	AA-	A-1	Stable	Reaffirmed
2/25/2011	AA-	A-1	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.