RATING REPORT

Sindh Bank Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA	A-1+	AA	A-1+
Outlook	Rating watch-Developing		Stable	
Date	*June 30, '17*		*June 28, '16*	

COMPANY INFORMATION

Incorporated in 2010	External auditors (2016): **Grant Thornton Anjum Rahman, Chartered Accountants** External auditors (2017): **EY Ford Rhodes, Chartered Accountants**
Public Unlisted Company	Chairman of the Board: **Mr. Afzal Ghani**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Tariq Ahsan**
Government of Sindh, Finance Department – 99.9%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Commercial Banks Rating http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.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 260 branches at end-2016.

Profile of the Chairman

Mr. Afzal Ghani is the Chairman of the Board of Directors. He is a Senior Chartered Accountant and a Business Executive, having vast experience as a Professional Business Executive and Corporate Expert.

Profile of the CEO

Mr. Tariq Ahsan is the CEO of the bank. He joined the bank in December 2010. He has over 28 years of experience in the financial sector.

RATING RATIONALE

Sindh Bank Limited (SNDB) is a majority owned entity of the Government of Sindh (GoS) through Ministry of Finance. In 2016, the bank expanded its footprint further, with 260 (2015: 250) branches at year-end 2016. Another 40 branches are proposed to be set-up in the on-going year to increase outreach to 300 online branches.

During the outgoing year, SNDB was engaged in the listing process. However, the same has been put on hold as the GoS and majority shareholders of another commercial bank have agreed in principle to consider the merger of the two institutions.

Advances: Growth was witnessed in gross advances of the bank which amounted to 55.9b (2015: Rs. 46.7b) at end 2016. Advances portfolio of the bank features client wise concentration; however the same has improved as compared to the preceding year. Top 10 and 20 clients constitute 36% (2015: 47%) and 52% (2015: 63%) of gross financing portfolio, respectively. Largest counterparty is Food Department GoS (secured by GOP guarantee) while remaining large exposures are primarily against sugar, steel and power sector. Some of the large performing exposures in the bank's loan book have weak risk profiles. Segment wise composition of the loan book remained the same as the preceding year with corporate financing representing 85% of the gross advances portfolio. Although lending of the bank in the corporate sector largely remains concentrated in the sugar industry representing 29.4% (2015: 31.5%) of total loan book of the bank at end- 2016, the same has featured improvement on the back of growth in advances. Going forward, the bank plans to enhance its exposure in energy sector and consumer lending, the latter through car financing. Spreading out exposures within sectors and defining conservative sector limits may facilitate the bank in managing its future lending activities better.

Asset Quality: Non-performing loans (NPLs) exhibited fourfold increase vis a vis preceding year. Growth in NPLs was reflected in escalated gross infection which stood at 2.8% (2015: 0.6%) at end-2016 and increased marginally to 2.9% at end-1Q17. Net infection (after accounting for specific provisions) stood at 2.7% (2016, 2.6%, 2015: 0.5%) at end-1Q17. General provisions worth Rs.4.0b have been booked, which adequately covers current NPLs, and the same may be utilized in future.

Profitability: In line with fall in industry spreads in the outgoing year, due to decline in interest rates, operating profitability decreased to Rs. 1.1b (2015: Rs. 1.5b). Overall profitability was higher due to lower provisions made during the outgoing year. While spreads in 1Q17 remained at prior year level, net interest income increased on account of volumetric growth in earning assets.

Investments: Investments largely comprise government securities carrying low credit risk. Investment portfolio of the bank stood at Rs. 81.1b at end-1Q17 (2016:Rs. 71.5b; 2015: Rs. 70.4b). PIBs represented 83.8% of the portfolio at end-1Q17. Given longer duration of the PIB portfolio, exposure to market risk of the same is considered high. Proactive market risk management is considered important in order to avoid losses in case of adverse movement in interest rates. Equity market (including listed shares and stock funds) exposures represented about 13.5% of the bank's own equity, which is considered manageable.

Liquidity: Deposit concentration remains on the higher side compared to peers given the bank's relatively nascent operations. Concentration in top 50 deposits remained almost unchanged and represented 52.0% (2015: 53.0%) of the total deposits. Overall liquidity profile is considered sound in view of the sizeable liquidity buffer carried on balance sheet, with liquid assets comprising 69.1% (2015: 60.0%) of deposits & borrowings at end-2016. Going forward, the bank will focus on enhancing deposit mix and improving granularity through increase in proportion of current account deposits and new-to-bank accounts.

Capitalization: The bank is adequately capitalized having net equity of Rs. 15.5b (2015: Rs. 14.7b). While declining on a timeline basis, Capital Adequacy Ratio (CAR) stood at a healthy 18.3% (2015: 20.13%; 2014: 22.5%) at end-2016. Given the expected merger with another commercial bank, CAR of SNDB is projected to decline to 13.7% while remaining in compliance with the regulatory requirement. Fall in the capitalization ratio, post-merger is largely due to deterioration in asset quality as well as expansion in its lending activities resulting in increase in RWAs.

Sindh Bank Limited **Appendix I**

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Total Investments	71,539	70,394	59,467
Advances	51,833	44,169	41,185
Total Assets	146,355	128,242	124,871
Borrowings	8,910	27,160	46,077
Deposits & other accounts	119,022	84,076	61,884
Tier-1 Equity	15,302	13,459	12,199
Net Worth	15,530	14,758	14,102
INCOME STATEMENT	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Mark-up Income	4,404	4,442	3,345
Net Provisioning	1,607	2,516	21
Non-Markup Income	3,495	3,491	956
Operating Expenses	3,864	3362	2,761
Profit Before Tax	2,427	2,051	1,612
Profit After Tax	1,390	1,230	1,079
RATIO ANALYSIS	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Market Share (Advances) (%)	1.0%	0.98%	0.92%
Market Share (Deposits) (%)	0.9%	0.90%	0.74%
Gross Infection (%)	2.8%	0.6%	0.8%
Net Infection (%)	2.6%	0.5%	0.8%
Cost of deposits (%)	4.5%	5.2%	6.4%
Net NPLs to Tier-1 Capital (%)	7.4%	1.6%	2.5%
Capital Adequacy Ratio (C.A.R (%))	18.3%	20.13%	22.57%
Markup Spreads (%)	3.3%	3.5%	4.2%
Efficiency (%)	78%	68.9%	70.9%
Basic ROAA (%)	0.8%	1.6%	1.4%
ROAA (%)	1.0%	1.0%	1.2%
ROAE (%)	9.5%	9.2%	8.9%
Liquid Assets to Deposits & Borrowings (%)	69.1%	60.0%	58.3%

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
Instrument Structure	N/A

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
6/30 /2017	AA	A-1+	Rating Watch-Developing	Maintained
6/28/2016	AA	A-1+	Stable	Re-affirmed
6/30/2015	AA	A-1+	Stable	Re-affirmed
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

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.

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