RATING REPORT

Sindh Bank Limited

REPORT DATE:
Jun 30th, 2021

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Outlook	Stable		Stable	
Date	*June 30th, '21*		*June 30, '20*	

COMPANY INFORMATION	
Incorporated in 2010	External auditors: **Naveed Zafar Ashfaq Jaffery & Co. Chartered Accountants**
Public Unlisted Company	Chairman of the Board: **Mr. Anis A. Khan**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Imran Samad**
Government of Sindh, Finance Department – 99.9%	

APPLICABLE METHODOLOGY(IES)
VIS Commercial Banks Rating (June 2020) https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-CommercialBanks202006.pdf

Sindh Bank Limited (SNDB)

OVERVIEW OF THE INSTITUTION

Sindh Bank Limited was incorporated as a public limited unlisted company in October 2010. Government of Sindh has 99.9% shareholding in the bank. The bank was operating with a network of 330 branches at end-2020.

Profile of the CEO

Mr. Imran Samad has more than 31 years of experience in Banks/FIs as President & CEO, Managing Director and as Senior Executive/Group Head in the many areas of banking functions. Prior to joining Sindh Bank, Mr. Samad worked at Bank AJK as President/CEO for around three years. He has also served as Acting Managing Director of Bank of Khyber and as Group Head.

RATING RATIONALE

Sindh Bank is a wholly owned entity of Government of Sindh through Ministry of Finance. The key rating consideration is the sponsor profile of the Bank. Headquartered in Karachi, the bank has a nation-wide branch network of 330 (2020: 330) branches; of which 14 (2020: 14) are dedicated for Islamic banking. Market share, in terms of gross advances remains on the lower side vis-à-vis peers at 0.9% (2019: 0.9%). Management's efforts to improve IT infrastructure, governance and risk management framework are considered important from a ratings perspective.

High exposure to credit risk and weak asset quality. Healthy growth targeted in portfolio but improving underwriting quality is considered important from ratings perspective

Gross financing portfolio of SNDB registered nominal growth of ~1% primarily on account of higher exposure to a government client in food sector. Corporate loan book continues to represent more than four-fifth of gross financing portfolio. Overall client and sectoral concentration in financing portfolio remains on the higher side signifying sizeable exposure to credit risk. Going forward, management plans to grow consumer and SME segments, while fulfilling obligations with existing clients in the corporate segment. Given the higher credit risk associated with consumer and SME segments, underwriting quality will be crucial.

While exposure to a single group (with significant exposure in Sugar) has been the major reason for deterioration in asset quality indicators over the years, non-performing loans (NPLs) have also emanated from other corporate exposures. NPLs depicted increasing trend during 2020 albeit the pace of growth of NPLs slowed down in 2020. Total NPLs were reported at Rs. 35.3b (2019: Rs. 33.8b) at end-2020. Provisioning coverage remains on the lower side at 55.2% (2019: 45.3%) due to FSV relaxation availed by the Bank.

Fresh accretion in NPLs is expected due to sizeable exposure of the bank to oil and gas client. Provisioning charges are expected to remain elevated primarily due to FSV benefit expiry, fresh accretion of NPLs and also partly due to change in classification of NPLs (Around 96% of the NPLs were classified as loss as at end-March 2021). Overall exposure to credit risk from the performing portfolio is considered high given the quality of exposures. VIS expects asset quality indicators of the bank to remain under pressure going forward.

Sizeable increase observed in the investment portfolio with majority deployment in short term sovereign instruments

Akin to the banking industry, SNDB also directed liquidity generated from deposits and borrowings towards the sovereign securities. Resultantly, net investment portfolio of the bank witnessed significant increase to Rs. 232.8b (2020: Rs. 170.9b; 2019: Rs. 65.1b) at end-Q1'2021. Credit risk emanating from the investment portfolio is considered limited as ~98% of investments are deployed in GoP securities. Although PIBs comprise ~60% of total investment portfolio, more than two-third of the total PIBs are floating rate PIBs. Given the anticipated increase in benchmark rates over medium to long term, market risk emanating from the fixed income portfolio is considered manageable given the sizeable proportion of T-bills and floating rate PIBs in overall portfolio. Equity portfolio is diversified but overall exposure as a percentage of bank's equity is considered sizeable. Hence, market risk arising from the same needs to managed carefully over time.

Liquidity profile draws comfort from sizeable liquid assets carried on the balance sheet. However, deposit mix and concentration have room for improvement.

Overall liquidity profile has witnessed significant improvement vis-à-vis preceding year on account of increase in liquid assets in relation to total deposits and borrowings (adjusted for repo). Total deposit base has registered healthy growth by increasing to Rs. 192.9b (2020: Rs. 185.6b; 2019: Rs. 134.0b) at end-Q1'2021. However, majority growth has been in saving and fixed accounts, which resulted in decrease in current accounts (CA) proportion in overall deposit base to 23.4% (2020: 25.8%; 2019: 33.0%). As per management, mobilization of savings and fixed deposits was achieved to ensure certainty of deposits for a longer time period, so that the growth in asset base can be facilitated accordingly. Hence, deposit mix depicts room for improvement.

SNDB maintains a considerable cushion over regulatory requirements of Liquidity Coverage Ratio (LCR- 433%) and Net Stable Funding Ratio (NSFR- 304%). However, depositor concentration levels are high with top 50 depositors representing around one-half of total deposits.

Sizeable equity injection by sponsors has allowed the Bank to achieve compliance with regulatory capital requirements. Overall capitalization indicators remain weak due to significant un-provided NPLs. However, VIS expects strong support from sponsor to continue in future whenever the need arises to meet compliance levels.

The sponsor had demonstrated support for the entity through capital infusion of Rs. 11.7b during 2019. On December 31, 2020, the State Bank of Pakistan (SBP) approved amalgamation of Sindh Leasing Company Limited (SLCL) with and into SNDB. As a result of this amalgamation, equity of SNDB increased by Rs. 3.8b. However, total equity continues to be eroded by net losses being incurred by the bank. Total equity of the bank stood at Rs. 18.6b (2020: Rs. 19.1b; 2019: Rs. 17.1b) at end-Q1'2021.

The bank's Capital Adequacy Ratio (CAR) stood at 14.0% (2020: 15.2%; 2019: 13.2%) at end-Q1'2021, thereby depicting cushion over the regulatory requirements. Going forward, capitalization indicators are expected to remain under pressure due to weak internal capital generation and continued provision against non-performing loans. Net-NPLs in relation to Tier-1 equity will remain on the higher side given that provisioning will be taken in a staggered manner over the years

Trend in operating losses expected to persist but quantum of losses is expected to reduce. Sizeable provisions will continue to act as a drag on profitability.

Although improvement was observed in overall profitability as the quantum of losses incurred by the bank decreased, bottom-line still remained negative due to high credit provision as a result of weak asset quality in 2020. The bank posted loss after tax of Rs. 3.2b (2019: Rs. 8.3b) in 2020. Greater increase in income vis-à-vis expenses and lower provision contributed to reduction in quantum of loss posted by the bank. While quantum of losses has declined, trend in operating losses is expected to continue for some time on account of provisions.

Sindh Bank Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**2018**	**2019**	**2020**	**Q1'2021**
Investments	55,350	65,143	170,818	232,785
Net Advances	73,632	61,131	56,853	57,868
Total Assets	155,561	160,599	273,713	332,586
Borrowings	26,772	4,192	62,378	114,967
Deposits & other accounts	113,595	134,050	185,571	192,889
Tier-1 Equity	7,095	8,808	9,924	8,822
Paid-up Capital	10,010	19,710	19,710	25,524
Net Worth	11,238	17,077	19,077	18,620
INCOME STATEMENT				
Net Markup income	4,875	1,850	2,874	956
Net Provisioning	(1,378)	(10,020)	(3,723)	(17)
Non-Markup Income	(389)	(668)	623	180
Operating expenses	(4,527)	(4,923)	(5,109)	(1,309)
Profit/ (Loss) Before Tax	(1,419)	(13,761)	(5,335)	(189)
Profit / (Loss) After Tax	(1,205)	(8,260)	(3,213)	(116)
RATIO ANALYSIS				
Market Share (Domestic Advances)	1.0%	0.9%	0.9%	0.9%
Market Share (Domestic Deposits)	0.9%	0.9%	1.0%	1.1%
Gross Infection	33.9%	44.2%	46.3%	45.6%
Provisioning Coverage	20.6%	45.3%	55.2%	55.3%
Net Infection	29.0%	30.3%	27.8%	27.3%
Cost of deposits	4.2%	6.8%	6.4%	5.2%
Gross Advances to Deposits Ratio	68.5%	57%	41.1%	40.1%
Net NPLs to Tier-1 Capital	272.4%	210.1%	159.5%	178.9%
Capital Adequacy Ratio (CAR)	8.0%	13.2%	15.2%	14.0%
Markup Spreads	2.9%	1.4%	1.4%	1.2%
Efficiency	82.6%	202.0%	144.5%	116.1%
ROAA	-0.7%	-5.2%	-1.5%	-0.2%
ROAE	-8.8%	-58.3%	-17.8%	-2.5%
Liquid Assets to Deposits & Borrowings	47.2%	58.1%	72.4%	73.0%
LCR	156%	249%	367%	433%
NSFR	124%	150%	260%	304%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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		
6/30/2021	A+	A-1	Stable	Re-affirmed
6/30/2020	A+	A-1	Stable	Re-affirmed
6/28/2019	A+	A-1	Stable	Downgrade
6/28/2018	AA	A-1+	Rating Watch-Developing	Re-affirmed
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

Instrument Structure	N/A
Statement by the Rating Team	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	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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Due Diligence Meetings Conducted

S. No	Name	Designation	Date
1	Mr. Saeed Jamal Tariq	Chief Financial Officer	June 16, 2021
2	Mr. Rehan Anjum	Head of Corporate, SME, Consumer, Investment Banking and Credit	June 16, 2021
3	Mr. Syed Ata Hussain	Head of Information Technology	June 16, 2021
4	Mrs. Rukhsana Narejo	Head of Treasury Division and Financial Institutions	June 16, 2021
5	Mr. Shahid S.A. Mughal	Head of Audit & Inspection	June 16, 2021
6	Mr. Assad Ali Shah	Group Business Head - Sindh	June 16, 2021
7	Mr. Ahmed Noor	Head of Special Asset Management	June 17, 2021