RATING REPORT

Sindh Bank Limited

REPORT DATE:
June 28, 2022

RATING ANALYST:
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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 28, 2022*		*June 30, 2021*	

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	RATING RATIONALE

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-2021.

Headquartered in Karachi, Sindh Bank Limited (SNDB) is a wholly owned entity of Government of Sindh (GoS) with operating history of over a decade. The branch network stood at previous year level with total 330 branches (14 dedicated for Islamic banking) in 169 cities nationwide.

Asset quality indicators compare adversely to peers while provisioning coverage is on the lower side.
Gross financing portfolio has registered a declining trend on a timeline basis given the restriction on fresh corporate lending from SBP. As a result, market share (in terms of advances) has declined from 1% in Dec'19 to 0.7% in Mar'22. Corporate segment continues to constitute more than four-fifth of loan portfolio while overall client and sectoral concentration remain on the higher side. Going forward, management plans to initiate or revive house, salary and auto loans in the consumer segment while building up SME portfolio is the key focus area.

Exposure to a single, primarily sugar sector group has been the major cause of deterioration in asset quality indicators over the years, as reflected by highest gross infection in the industry. Pertaining to the group, there are total 26 accounts representing ~59% of non-performing loans (NPLs). Remaining NPLs have emanated from other corporate exposures, comprising 61 accounts. NPLs have exhibited an increasing trend over the years, amounting to Rs. 37.4b (2020: Rs. 35.3b; 2019: Rs. 33.8b) in 2021. Though provisioning coverage slightly improved in comparison to previous year, it remains on the lower side.

In 2021, obligor risk rating of overall performing portfolio stands at 5 out of 12. This along with 400 bps increase in benchmark rates, concerns of potential increase in NPLs are emerging. To manage pressure on asset quality indicators, enhanced monitoring and prudent underwriting are planned.

Credit and market risk emanating from investment portfolio is considered manageable.
Given the uptick in benchmark rates, SNDB opted to channel liquidity towards sovereign securities in line with the industry. As a result, investment portfolio has grown notably on a timeline basis. Around 98% of investment portfolio constitutes sovereign securities, which are considered lowest credit risk in domestic context. In addition, with ~90% exposure in T-Bills and floating rate PIBs, market risk is also limited. As at end-Mar'22, cumulative deficit on fixed income portfolio stands at Rs. 2.2b. Equity portfolio is diversified and stands at ~12% in relations to Bank's equity. Management remains conservative with regards to investment in equities.

Significant jump in liquidity buffers support the liquidity profile. Room for improvement exist in terms of deposit granularity.
SNDB's liquidity profile derives strength from increasing trend and sizable coverage of liquid assets in relation to deposits and borrowings (adjusted for repo). Deposit base grew by ~17% (in line with industry growth), while funding costs remained consistent with peers. As per management, concerted efforts of workforce coupled with rollout of deposit mobilization campaigns, as part of strategy, facilitated the growth and improvement in

deposit composition. The same is reflected by healthy proportionate increase in CASA to 72% (2020: 67%) in 2021. The Bank maintains sizeable cushion over regulatory requirement for LCR and NSFR.

Deposit granularity has depicted weakening on a timeline basis, as reflected by proportion of top 50 depositors increasing from 47% in 2019 to 55% in 2021 and significant proportion of total deposits belonging to largest ticket category.

Capitalization indicators remain under pressure given weak internal capital generation and projected provisioning against NPLs. Continued support of the sponsor to meet capital requirement will remain the key rating driver.
Despite sizeable capital infusions over the years (including Rs. 11.7b by GoS in 2019, Rs. 3.8b through amalgamation of Sindh Leasing Company Limited in 2020 and Rs. 4.0b injected by sponsor in 2021), total equity continues to be eroded by significant net losses due to provisioning on NPLs. In 2021, SNDB's Capital Adequacy Ratio (CAR) has decreased significantly, thereby reducing the cushion over regulatory requirement.

Capitalization buffers will remain under pressure due to low internal capital generation and the projected provisioning against NPLs for the next 3 years while quantum of the same will also depend on recovery. Net-NPLs in relation to Tier-1 equity are currently the highest in the industry.

Sizeable provisions will continue to be a drag on profitability over the rating horizon.
While recouping to 2018 levels, net markup income has grown significantly over the last two years, owing primarily to volumetric growth in investments in T-Bills and floating rate PIBs given rising interest rate scenario. However, due to high credit provisions, bottom line remains negative. In 2021, quantum of net losses grew by ~16%. Efficiency ratio has noted improvement on a timeline basis mainly on account of strong growth in net markup income, which remained on the higher side vis-à-vis peers. As per management, there are plans to relocate branches with high operational expenses as part of cost rationalization measures.

Sindh Bank Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	2018	2019	2020	2021	Q1'2022
Investments	55,350	65,143	170,818	175,703	252,672
Net Advances	73,632	61,131	56,853	47,784	45,701
Total Assets	155,561	160,599	273,713	270,188	341,078
Borrowings	26,772	4,192	62,378	26,786	96,424
Deposits & other accounts	113,595	134,050	185,571	217,608	218,857
Tier-1 Equity	7,095	8,808	9,924	5,689	5,651
Paid-up Capital	10,010	19,710	19,710	25,524	25,524
Net Worth	11,238	17,077	19,077	18,627	18,643
INCOME STATEMENT					
Net Markup income	4,875	1,850	2,874	4,904	1,768
Net Provisioning charge	(1,378)	(10,020)	(3,723)	(5,823)	(82)
Non-Markup Income	(389)	(668)	623	576	195
Administrative expenses	(4,527)	(4,923)	(5,109)	(5,654)	(1,484)
Profit/ (Loss) Before Tax	(1,419)	(13,761)	(5,335)	(6,064)	397
Profit / (Loss) After Tax	(1,205)	(8,260)	(3,213)	(3,727)	244
RATIO ANALYSIS					
Market Share (Domestic Advances) (%)	1.0%	0.9%	0.9%	0.7%	0.7%
Market Share (Domestic Deposits) (%)	0.9%	0.9%	1.0%	1.0%	1.1%
Advances to Deposits Ratio (%)	68.6%	55.8%	40.1%	32.7%	31.6%
Liquid Assets to Deposits & Borrowings (%)	118.9%	149.0%	79.1%	82.2%	86.5%
NPLs	24,868	33,808	35,334	37,404	37,187
Gross Infection (%)	33.9%	44.2%	46.3%	51.2%	52.4%
Provisioning Coverage (%) *(incl. general provisions)*	20.6%	45.3%	55.2%	67.5%	68.1%
Net Infection (%)	29.0%	30.3%	27.8%	25.5%	26.0%
Cost of deposits (%)	4.2%	6.8%	6.4%	5.1%	n/a
Net NPLs to Tier-1 Capital (%)	272.4%	210.1%	159.5%	213.8%	209.9%
Tier-1 CAR (%)	8.0%	13.2%	15.2%	11.9%	11.7%
Capital Adequacy Ratio (CAR) (%)	8.0%	13.2%	15.2%	11.9%	11.7%
LCR (%)	156%	249%	367%	441%	391%
NSFR (%)	124%	150%	260%	256%	284%
Markup Spreads (%)	2.8%	2.2%	1.7%	2.0%	n/a
Efficiency (%)	82.6%	202.0%	144.5%	103.1%	74.4%
ROAA (%)	-0.7%	-5.2%	-1.5%	-1.4%	0.3%
ROAE (%)	-8.8%	-58.3%	-17.8%	-19.8%	5.2%

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				
6/28/2022	A+	A-1	Stable	Re-affirmed
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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Dilshad Khan	Chief Financial Officer	June 10, 2022
Mr. Rehan Anjum	Head of Corporate, SME, Consumer, Investment Banking and Credit	
Mrs. Rukhsana Narejo	Head of Treasury Division and Financial Institutions	
Mr. Ahmed Noor	Head of Special Asset Management	