

RATING REPORT

Sindh Bank Limited

REPORT DATE:

July 1, 2016

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	Stable		Stable	
Date	June 28, '16		June 30, '15	

COMPANY INFORMATION
Incorporated in 2010

 External auditors (2015): **Grant Thornton Anjum Rahman, Chartered Accountants**
Public Unlisted Company

 Chairman of the Board: **Mr. Afzal Ghani**
Key Shareholders (with stake 5% or more):

 Acting Chief Executive Officer: **Mr. Tariq Ahsan**

 Government of Sindh, Finance Department –
100.0%

APPLICABLE METHODOLOGY(IES)

 JCR-VIS Commercial Banks Rating <http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf>

Sindh Bank Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p><i>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 250 branches at end-2015.</i></p> <p><i>The CEO position has witnessed two changes with the retirement of Mr. Bilal Sheikh and resignation of Mr. M. Naim Farooqui. Mr. Tariq Ahsan is the present Acting CEO of the Bank.</i></p>	<p>The ratings assigned to Sindh Bank Limited take into account the shareholding structure with the bank being a wholly owned company of Government of Sindh. The bank has continued to pursue aggressive branch expansion with 250 branches added over the last five years. A more steady branch expansion is planned from 2016 onwards. Additional funds generated by way of an increasing deposit base were primarily deployed in government securities. Resultantly, proportion of investments in total assets increased to 54.9% (2014: 47.6%) of the asset base with major deployment made in Pakistan Investment Bonds (PIBs). Going forward, bank’s focus will be on increasing advances portfolio while proportion of investments in total assets is projected to decline.</p> <p>Advances: Growth of 13.4% in gross advances in the outgoing year has been witnessed. Corporate & commodity financing continues to be the mainstay of the bank’s lending operations with significant concentration in the advances portfolio. Some of the large performing exposures in the bank’s loan book have weak risk profiles as evident from high leverage indicators and marginal cash flows. While exposure to the sugar sector has declined over time, the same continues to be sizeable at 31.5% of the portfolio. Around one-fifth and one-third of the sugar sector exposure is secured against cash and pledge of sugar, respectively. Reported infection in the portfolio has increased and stood at 5% (2014: 0.8%) at end-1Q16. Net infection (based on specific provisions) stood at 4.8% at end-1Q16 as the bank has availed FSV benefit to the tune of Rs. 956.2m. General provisions of Rs. 3.025b (During 2015 and 1Q16) has been made over and above regulatory requirement to cover for future loan losses.</p> <p>Investments: Given the significant exposure to government securities, credit risk emanating from the same is considered limited. Moreover, reinvestment risk is low with limited PIBs maturing in the ongoing year. While PIB portfolio has a sizeable revaluation surplus, their duration carries market risk.</p> <p>Liquidity: Deposit base of the bank witnessed sizeable growth in the outgoing year with dedine noted in the proportion of GoS deposits. Growth has been noted in the proportion of fixed deposits while CASA has dedined on a timeline basis. Proportion of non-remunerative deposits is currently lower vis-a-vis peers. Despite high depositor concentration (slight increase on a timeline basis) and low proportion of retail deposits, overall liquidity profile of the bank is considered adequate in view of sizeable liquid assets carried on the balance sheet. Going forward, bank will focus on further enhancing deposit mix and reducing concentration through increase in proportion of current account deposits, new-to-bank accounts and reduction in proportion of GoS deposits to total deposits</p> <p>Profitability: While spreads decreased in the outgoing year in line with lower interest rates (Average KIBOR was lower by 275bps), operating profitability increased to Rs. 1.8b (2014: Rs. 1.5b) on the back of volumetric growth in earning assets. Overall profitability was higher despite general provisions of Rs. 2.5b on account of higher capital gains (Rs. 3.06b) during 2015. Net interest income and operating profitability of the bank has dedined during 1Q16. Volumetric growth in earning assets and higher non-interest income is projected to mitigate the impact of dedine in spreads on profitability. Given the long breakeven time for branches, which might increase further in the current low interest rate environment, spreads of the bank may witness pressure with maturity of PIBs.</p> <p>Capitalization: While declining on a timeline basis, Capital Adequacy Ratio stood at a healthy 20.13% (2014: 22.5%) at end-2015. Equity injection through issuance of new shares as part of the listing process in the ongoing year is also expected to support capitalization levels. With projected growth in advances resulting in increase in RWAs along with dividend payments, CAR is projected to decline while remaining at comfortable levels.</p>

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Sindh Bank Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Total Investments	70,394	59,467	36,786
Advances	44,169	41,185	26,565
Total Assets	128,242	124,871	75,033
Borrowings	27,160	46,077	16,758
Deposits & other accounts	84,076	61,884	45,756
Tier-1 Equity	13,459	12,199	10,896
Net Worth	14,758	14,102	11,327
INCOME STATEMENT	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Net Mark-up Income	4,442	3,345	2,258
Net Provisioning	2,516	21	22
Non-Markup Income	3,491	956	860
Operating Expenses	3362	2,761	2,146
Profit Before Tax	2,051	1,612	953
Profit After Tax	1,230	1,079	666
RATIO ANALYSIS	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Market Share (Advances) (%)	0.98%	0.92%	0.65%
Market Share (Deposits) (%)	0.90%	0.74%	0.61%
Gross Infection (%)	0.6%	0.8%	0.2%
Net Infection (%)	0.5%	0.8%	0.2%
Cost of deposits (%)	5.2%	6.4%	5.5%
Net NPLs to Tier-1 Capital (%)	1.6%	2.5%	0.4%
Capital Adequacy Ratio (C.A.R (%)	20.13%	22.57%	23.97%
Markup Spreads (%)	3.5%	4.2%	2.4%
Efficiency (%)	68.9%	70.9%	81.0%
Basic ROAA (%)	1.6%	1.4%	0.6%
ROAA (%)	1.0%	1.2%	1.0%
ROAE (%)	9.2%	8.9%	5.8%
Liquid Assets to Deposits & Borrowings (%)	60.0%	58.3%	60.3%

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.

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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		Medium to Long Term	Short Term	Rating Outlook	Rating Action
	Rating Date				
	RATING TYPE: ENTITY				
	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	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.				
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