JCR-VIS Credit Rating Company Limited

Founder Shareholder - Islamic International Rating Agency (IIRA), Bahrain
Joint Venture Partner - Credit Rating & Information Services Ltd. (CRISL), Bangladesh
Member - Association of Credit Rating Agencies in Asia (ACRAA)

Press Release

JCR-VIS Reaffirms Entity Ratings of Sindh Bank Limited

Karachi, June 28, 2018: JCR-VIS Credit Rating Company Ltd. (JCR-VIS) has reaffirmed the entity ratings of Sindh Bank Limited (SNDB) at 'AA/A-1+' (Double A/A-One Plus). Ratings have been placed on 'Rating Watch-Developing' status in view of the ongoing merger with another commercial bank. The previous rating action was announced on June 30, 2017.

Current ratings of SNDB take into account the shareholding structure of the bank being vested with Government of Sindh (GoS). Ratings also reflect adequate capitalization & liquidity profile and improving operating profitability levels on the back of volumetric growth in earning assets. Ratings are constrained by sizeable exposure to credit & market risk and significant concentration in deposit and financing portfolio.

Gross advances of the bank exhibited growth of 23% during 2017. Exposure to credit risk is on the higher side given the significant sector and counterparty concentration. Asset quality indicators have weakened on a timeline basis; comfort is drawn from sizeable general provisions undertaken. Given the mid-term economic scenario and policy rate regime, maintaining asset quality indicators in line with benchmarks for the assigned ratings is considered important. While average yield on PIB portfolio compares favorably vis-à-vis peer Banks, exposure to market risk is on the higher side given the duration of the PIB portfolio and in the backdrop of expected increase in benchmark rates. Proactive market risk management is considered important from a ratings perspective.

Liquidity profile draws support from sizeable liquid assets carried on the balance sheet while Liquidity Coverage Ratio and Net Stability Funding Ratio were well above regulatory requirement. Depositor concentration and cost of deposits have room for further improvement. While declining on a timeline basis, capitalization indicators remain commensurate with the assigned ratings. In the backdrop of increasing regulatory requirements, maintaining buffer over regulatory requirement is considered important.

Despite pressure on spreads, volumetric growth in earning assets and controlled administrative expenses translated into significant increase in operating profitability during 2017 and 1Q18. However, overall profitability declined due to significantly lower capital gain on sale of investments. Going forward, operating profitability is projected to increase on the back of volumetric growth in earning assets. However, overall profitability will depend on quantum of provisioning charges on financing portfolio.

For further information on this rating announcement, please contact the undersigned (Ext: 201) at 021-35311861-71 fax to 021-35311873.

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Applicable rating criterion: Commercial Banks Methodology –March 2018
http://jcrvis.com.pk/docs/Meth-CommercialBanks201803.pdf