Press Release

VIS revises Entity Ratings of Sindh Bank Limited

Karachi, June 28, 2019: VIS Credit Rating Company Ltd. (VIS) has revised the entity ratings of Sindh Bank Limited (SNDB) from 'AA/A-1+' (Double A/A-One Plus) to 'A+/A-1' (Single A Plus/A-One). Given that the planned merger with another commercial bank has been called off, 'Rating Watch-Developing' status assigned to the ratings has been removed. Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on June 28, 2018.

The rating downgrade incorporates deterioration in SNDB's standalone credit profile mainly due to classification of exposures (with implications on chargeoff requirements and loss of income) against a single group with weak risk profile and sizeable revaluation deficit on medium to high duration PIB portfolio. Rating action also reflects weakening in profitability, liquidity, capitalization and asset quality indicators and are constrained by significant concentration in deposits and room for improvement in strengthening Internal Audit and IT Infrastructure. Financial profile is projected to depict improvement with aggregate equity injection of Rs. 14.7b planned by Government of Sindh (GoS) over the next 1 year. Quantum of equity injection is sizeable and will allow the Bank to achieve cushion over regulatory CAR requirement in the ongoing year and also improve profitability & liquidity profile. Compliance of financial indicators with communicated benchmarks will be an important rating determinant, going forward. Ratings draw comfort from the explicit support of the Bank's sponsor, GoS. Budgetary allocation for the above capital injection has already been made by the GoS.

Given the increase in non-performing exposures, asset quality indicators have depicted significant weakening on a timeline basis with gross and net infection reported at 31.4% (Sep'2018: 7.8%; 2017: 7.9%; 2016: 2.8%) and 26.3% (2017: 7.4%) at end-2018. Provisioning charges are expected to remain elevated over the rating horizon due to change in classification of NPLs, expiry of FSV benefit undertaken and fresh NPL accretion in the backdrop of weak macroeconomic environment. Strategy of maintaining sizeable medium to long tenor PIB holdings has translated into significant revaluation deficit. Further revaluation deficit is expected on PIB portfolio post December'2018 given increase in benchmark rate.

During 2018, SNDB posted an operating profit of Rs. 938.4m (2017: Rs. 1.8b). Given the sizeale suspended income and reversal of mark-up income, SNDB incurred an operating loss in 1Q19. However, trend in operating losses is projected to reverse post equity injection. Deposit base witnessed significant attrition in the outgoing year. Liquidity profile has weakened given the sizeable depositor concentration and decline in liquidity buffer carried on the balance sheet. Liquidity Coverage Ratio and Net Stability Funding Ratio remain above regulatory requirement.

Ownership by GoS as a risk mitigating factor is important alongwith GoS capitalization support to SNDB. This alongwith improvement in asset quality & profitability indicators and liquidity buffers in line with projections are critical rating drivers, going forward.

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://vis.com.pk/docs/Meth-CommercialBanks201803.pdf