Press Release

VIS reaffirms Entity Ratings of Sindh Bank Limited

Karachi, June 30th, 2021: VIS Credit Rating Company Ltd. (VIS) has reaffirmed the entity ratings of Sindh Bank Limited (SNDB) at 'A+/A-1' (Single A Plus/A-One). Outlook on the assigned ratings is 'Stable'. The long term rating of 'A+' signifies good credit quality and adequate protection factors. Risk factors may vary with possible changes in the economy. The short term rating of 'A-1' signifies high certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor. The previous rating action was announced on June 30, 2020.

The assigned ratings incorporate SNDB being a wholly owned subsidiary of Government of Sindh (GoS). Explicit support of the Bank's sponsor is a key rating consideration. Ratings incorporate sizeable capital injection to the tune of Rs. 15.5b by GoS over the last two years, which has enabled the bank to achieve compliance with regulatory capital requirements. Strong sponsor support is also evident from sizeable deposits by GoS and related entities. Continued support of the sponsor will remain key for rating purposes.

On a standalone basis, liquidity and capitalization indicators have witnessed improvement on a timeline basis. Nevertheless, asset quality and profitability profile remain weak. Liquidity buffers are adequate as evident from sizeable liquid assets in relation to deposits and borrowings and significant cushion in terms of LCR and NSFR. However, in the light of sizeable deposit concentration, the bank remains exposed to external shocks as witnessed in the past. Hence, reducing depositor concentration levels and improving deposit mix is considered important from ratings perspective. In terms of Deposit growth, Deposit base has witnessed sizeable growth since the beginning of 2020. Ratings incorporate efforts to strengthen IT infrastructure and governance and risk management framework which is considered important for ratings.

Gross financing portfolio depicted nominal growth during the outgoing year. Overall client and sectoral concentration in financing portfolio remains on the higher side signifying sizeable exposure to credit risk. Restriction on corporate lending remains in place but the bank has acquired permission from the regulator to honor financing commitments with the existing clients. Management also plans to grow in the consumer and SME segment; however, quality of underwriting will be crucial as credit risk is higher in these segments. Net infection is considerably on the higher side vis-à-vis rating benchmark while provisioning coverage is low due to sizeable FSV benefit realized by the Bank. Provisioning charges are expected to remain elevated primarily due to FSV benefit expiry, fresh accretion of NPLs are also partly due to change in classification of NPLs. VIS expects asset quality indicators of the bank to remain under pressure going forward.

Akin to the banking industry, SNDB also deployed liquidity generated from deposits and borrowings in investments, which registered sizeable increase. Credit risk emanating from the investment portfolio is considered limited as ~98% of investments are deployed in sovereign securities however, market risk arising from the same needs to be managed carefully. 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 provisions as a result of weak asset quality in 2020. Any material deterioration in asset quality or continuity of losses will result in weakening in capital buffers, which may affect ratings going forward.

For further information on this rating announcement, please contact Ms. Sara (Ext: 207) or the undersigned (Ext. 306) at 021-35311861-70 or email at info@vis.com.pk

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Applicable rating criterion: Commercial Banks Methodology – June 2020
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-CommercialBanks202006.pdf