

Press Release

VIS Reaffirms Entity Ratings of Sindh Bank Limited

Karachi, June 27, 2023: VIS Credit Rating Company Ltd. (VIS) has reaffirmed the entity ratings of Sindh Bank Limited ('SNDB' or 'the Bank') at 'A+/A-1' (Single A Plus/A-One). Outlook on the assigned ratings is 'Stable'. Long term rating of 'A+' signifies good credit quality and adequate protection factors. Risk factors may vary with possible changes in the economy. 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. Previous rating action was announced on June 28, 2022.

Assigned ratings continue to take into account the sub-sovereign sponsorship of Sindh Bank Limited (SNDB), as a wholly owned entity of the Government of Sindh. The Government has demonstrated support by injecting capital into the Bank, enabling it to meet regulatory capital requirements.

SNDB's credit portfolio indicators compare adversely to peers, with some improvement in its provisioning coverage. The Bank has experienced a declining trend in its gross advances portfolio due to regulatory restrictions on corporate lending. The concentration of the loan portfolio in the corporate segment, along with overall client and sectoral concentration, remains high. However, SNDB has successfully managed and recovered certain non-performing assets, leading to a decreasing trend in non-performing loans. The Bank has also strengthened provisions, as reflected in the increasing specific and total provisioning coverage ratios. The management has reported that the Bank has seriously taken up consumer financing activity through its branch network as well as SME portfolio as a major step to diversify its credit portfolio with risk mitigation mechanism intact.

The investment portfolio of SNDB presents minimal credit risk, primarily consisting of government securities. Market risk exposure is relatively low, with a small portion of the legacy portfolio in fixed-rate PIBs (available for sale). Deposit base growth has been slower compared to the industry, and the Bank's market share has slightly decreased. Liquidity ratios, such as LCR and NSFR, have remained above regulatory requirements, indicating a moderate liquidity risk profile.

The monetary tightening measures implemented by the State Bank of Pakistan have led to elevated benchmark rates, impacting spreads, efficiency ratio, and income growth for SNDB. While the yield on earning assets increased, a higher increase in the cost of funding resulted in a lower spread. Capitalization indicators remain under pressure due to weak internal capital generation and the need for provisions against non-performing loans. The assigned takes into account the investment of additional equity in the Bank by the Government of Sindh to meet regulatory capital adequacy requirement.

For further information on this rating announcement, please contact Mr. Musaddeq Ahmed Khan (Ext: 216) or the undersigned (Ext: 201) at (021) 35311861-64 or email at info@vis.com.pk



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Applicable rating criterion: Financial Institution - June 2023

<https://docs.vis.com.pk/docs/FinancialInstitution.pdf>

VIS Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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