RATING REPORT

Sindh Bank Limited

REPORT DATE:
June 28, 2024

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+	A+	A-1
Outlook	Stable		Stable	
Action	*Upgrade*		*Reaffirmed*	
Date	*June 28, 2024*		*June 27, 2023*	

COMPANY INFORMATION

Incorporated in 2010	External auditors: **Riaz Ahmad & Company Chartered Accountants**
Public Unlisted Company	Chief Executive Officer (A): **Mr. Muhammad Anwaar**
Key Shareholders (with stake 5% or more):	
Government of Sindh, Finance Department – 99.97%	

APPLICABLE METHODOLOGY(IES)

VIS Financial Institution
https://docs.vis.com.pk/docs/FinancialInstitution.pdf

VIS Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Sindh Bank Limited (SNDB)

OVERVIEW OF THE INSTITUTION

Sindh Bank Limited was incorporated as a public limited unlisted company in October 2010. Government of Sindh has 99.9% shareholding in the Bank. The Bank was operating with a network of 330 branches across Pakistan at year end-2023.

RATING RATIONALE

Headquartered in Karachi, Sindh Bank Limited (SNDB) is a wholly owned entity of Government of Sindh (GoS). The branch network stood at previous year level with a total of 330 branches (14 dedicated for Islamic Banking) in 169 cities nationwide.

Banking Sector

The Banking sector in Pakistan has been navigating a challenging macroeconomic landscape. Despite facing headwinds such as high inflation, elevated interest rates, and geopolitical uncertainties, the sector has demonstrated resilience and adaptability in supporting economic stability.

One of the important factors contributing to the sector's resilience has been its strong capitalization and liquidity. Banks in Pakistan remain well-capitalized, with an industry-wide CAR of 19.7%. This ensures that Banks are equipped to absorb potential shocks and maintain financial stability. Moreover, profitability metrics remain healthy, with a return on equity (ROE) of 27.1% based on CY-23 results, underscoring the sector's ability to generate sustained returns amidst challenging operating conditions.

The government's successful negotiation of the IMF's Stand-By Arrangement (SBA) program, has provided additional support to market confidence and exchange rate stability, with positive implications for the Banking sector. In terms of monetary policy dynamics, the State Bank of Pakistan (SBP) has maintained a cautious stance, balancing the imperative of containing inflationary pressures while supporting economic growth. Even as headline inflation has moderated from peak levels, it remains elevated. Nevertheless, the SBP has reduced the policy rate to 20.5% in its latest monetary policy statement. This stance reflects the central Bank's commitment to anchoring inflation expectations and safeguarding macroeconomic stability.

Looking ahead, the Banking sector faces both challenges and opportunities. Continued vigilance in managing credit quality and liquidity risks will be vital, especially amidst evolving macroeconomic dynamics and policy uncertainties. Moreover, the sector's role in supporting the government's reform agenda, particularly in areas such as energy, privatization of state-owned enterprises, and growth of SMEs will be critical in fostering sustainable economic growth and financial stability.

Key Rating Drivers

Wholly owned by a sub-sovereign, parent support is well demonstrated

With a sizable capital injection and government funds placed with the Bank, there is demonstrated government support for Sindh Bank. Moreover, representation of the provincial government on the Board and the utilization of the Bank’s infrastructure for government related payment services, reinforces the market position of the Bank, and is deemed a credit positive.

While non-performing loans are high in comparison to market norms, exposures are cash collateralized or provided for in large part; the Bank is likely to continue its cautious stance to lending growth

Gross advances demonstrate muted growth over the last 18 months. Commodity financing is a primary focus, as regulatory restrictions on corporate lending continue, except for exposures fully collateralized by liquid assets. Going forward, the Bank will prioritize cautiously expanding its lending portfolio, with a strong emphasis on recovery of Non-Performing Loans (NPLs).

Non-Performing Loans (NPLs) exhibited a downward trend, decreasing further by the end of Dec'23 despite economic challenges. Infection ratios, while generally trending down remain high relative to industry averages. However, provision coverage and cash collateral held against unprovided for NPLs, limits risk to the Bank. Investments mainly comprise sovereign issuances, minimizing credit risk exposure.

Market Risk is limited going forward as the benchmark rate trajectory reverses and the proportion of floating rate instruments increases

The majority of investments are in Pakistan Investment Bonds (PIBs), with a shift from fixed to floating rate PIBs observed. A rise in policy rates led to higher mark-to-market (MTM) losses in 2023. Given the high proportion of floating rate instruments in the portfolio, market risk is limited, particularly given the reversal in the trajectory of benchmark rates.

Liquidity indicators point to the availability of excess reserves

The focus on acquiring stable, low-cost funding, led to growth in current account deposits. Sizable placements of related party funds also demonstrate access to parent for liquidity. Liquidity ratios are well above regulatory requirements and indicate availability of excess reserves.

Turnaround in profitability noted in 2023; further improvement expected in the current year

In 2023, the high policy rate resulted in increased spreads. The Bank reported a profit after tax due to higher net markup income and non-markup income, despite inflationary pressures on administrative expenses. On the whole, we expect further gains in markup income and significant improvement in pre-tax return for the full year.

Capital injection in 2023 has significantly strengthened loss buffers

At the end of 2022, SNDB's Capital Adequacy Ratio (CAR) was significantly below the regulatory requirement due to net losses. To address this, the Bank received an equity injection from its sponsor at the start of the year and reported a net profit in 2023, leading to an improvement in shareholders' equity and CAR stood at 16.2%. By Mar'24, the CAR further improved to 21.46%, supported by increased eligible common equity tier-1 capital and is likely to remain significantly above regulatory requirement in the foreseeable future.

Sindh Bank Limited Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec'22**	**Dec'23**	**Mar'24**
Total Investments	254,553	166,503	169,534
Gross Advances	70,899	77,511	74,151
Net Advances	43,802	50,623	46,714
Total Assets	357,850	300,483	272,089
Borrowings	106,935	37,546	1,753
Deposits & other accounts	223,044	223,570	230,798
Tier-1 Equity	2,289	7,865	10,488
Paid-up Capital	29,524	34,524	34,524
Net Shareholder Equity (excl. surplus revaluation)	18,359	25,506	25,392
INCOME STATEMENT	**2022**	**2023**	**1Q'2024**
Net Markup income	5,316	7,993	2,026
Net Provisioning / (Reversal)	1,939	1,024	(523)
Non-Markup Income	1,089	1,867	225
Operating expenses	6,726	8,119	2,245
Profit/ (Loss) Before Tax	(2,269)	657	529
Profit / (Loss) After Tax	(1,385)	2,165	270
RATIO ANALYSIS	**2022**	**2023**	**1Q'2024**
Market Share (Domestic Advances) (%)	0.6%	0.6%	0.6%
Market Share (Domestic Deposits) (%)	1.0%	0.8%	0.8%
Non-Performing Loans (NPLs)	34,967	33,100	32,807
Gross Infection (%)	49.3%	42.7%	44.2%
Total Provisioning Coverage (incl. general prov.)	77.5%	81.2%	83.6%
Net Infection (%)	18.0%	12.3%	12.4%
Cost of deposits (%)	7.9%	13.6%	14.8%*
Gross Advances to Deposits Ratio***	30.9%	33.9%	31.4%
Net NPLs to Tier-1 Capital (adj. for general prov.)	343.1%	79.0%	53.3%
Tier-1 CAR (%)	5.4%	16.2%	20.9%
Capital Adequacy Ratio (CAR) (%)	5.4%	16.2%	21.5%
Markup Spreads (%)	2.3%	3.8%	4.1%*
Efficiency (%)	102.6%	85.4%	104.6%
LCR (%)	352.0%	425.0%	363.0%
NSFR (%)	203.0%	198.0%	171.0%
ROAA (%)	(0.4%)	0.7%	0.4%*
ROAE (Net Shareholder Equity)	(7.3%)	9.9%	4.2%*
Liquid Assets to Deposits & Borrowings (%)**	82.0%	81.6%	75.2%

**Annualized*
***Adjusted for repo and collateral*
****Adjusted for SBP refinancing schemes*

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Sindh Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
6/28/2024	AA-	A-1+	Stable	Upgrade
6/27/2023	A+	A-1	Stable	Re-affirmed
6/28/2022	A+	A-1	Stable	Re-affirmed
6/30/2021	A+	A-1	Stable	Re-affirmed
6/30/2020	A+	A-1	Stable	Re-affirmed
6/28/2019	A+	A-1	Stable	Downgrade
6/28/2018	AA	A-1+	Rating Watch-Developing	Re-affirmed
6/30/2017	AA	A-1+	Rating Watch-Developing	Maintained
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	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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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Dilshad Khan	Chief Financial Officer	24-May-2024
Mrs. Ruqaya Marghoob Rizvi	Head of Corporate and Investment Banking	
Mr. Zubair Aziz	Head of Treasury & Financial Institutions	
Mr. Mohammed Saleem Shafi	Head of Operations	
Ms. Sadia Bukhari	Head of Risk Management	