Press Release

VIS Upgrades Entity Ratings of Sindh Bank Limited

Karachi, June 28, 2024: VIS Credit Rating Company Limited (VIS) has upgraded the entity ratings of Sindh Bank Limited ('SNDB' or the 'Bank') to 'AA-/A-1+' (Double A Minus/A-One Plus) from 'A+/A-1' (Single A Plus/A-One). Long-term rating of 'AA-' indicates high credit quality; protection factors are strong; risk is modest but may vary slightly from time to time because of economic conditions. Short-term rating of 'A-1+' indicates strongest likelihood of timely repayment of short-term obligations with outstanding liquidity factors. Outlook on the assigned ratings is 'Stable.' Previous rating action was announced on June 27, 2023.

Assigned ratings take into account the sub-sovereign ownership of the Bank and sponsor support, recently reinforced by a sizable and timely capital injection as well as government funds placed with Sindh Bank. The provincial government's representation on the Board and the use of the Bank's infrastructure for government payment services further strengthen the Bank's market position and are considered a credit positive.

Gross advances have shown limited growth over the last 18 months. Commodity financing remains a primary focus due to regulatory restrictions on corporate lending, except for exposures fully collateralized by liquid assets. Moving forward, the Bank will cautiously expand its lending portfolio, in addition to consumer, SME, and agricultural segments, with a strong emphasis on recovering Non-Performing Loans (NPLs). NPLs have decreased over time, despite economic challenges. Although infection ratios are trending down, they remain high relative to industry averages. However, provision coverage and cash collateral held against unprovided NPLs limit risk to the Bank. Investments are mainly in sovereign issuances, minimizing credit risk exposure. SNDB's investment portfolio mainly comprise Pakistan Investment Bonds (PIBs), with an observed shift from fixed to floating rate PIBs. 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.

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

In 2023, amid a high monetary policy rate, the sharper increase in yields on earning assets relative to funding costs, improved the Bank's spread. SNDB reported a profit after tax due to higher net markup and non-markup income, despite inflationary pressures on administrative expenses. Overall, further gains in markup income and significant improvement in pre-tax return are expected for the full year.

At the end of 2022, SNDB's Capital Adequacy Ratio (CAR) was significantly below the regulatory requirement due to net losses. In 2023, a timely equity injection from the sponsor, coupled with the Bank reporting a net profit, improved shareholders' equity and substantially raised the CAR to 16.21% as of Dec'23, which further increased to 21.46% by end-Mar'24, a level comfortably above regulatory requirements, i.e. 11.5%. Improvement in asset quality indicators, the lifting of corporate lending restrictions and observed stability in permanent key management positions would be key drivers for further upgrade.

For further information on this ratings announcement, please contact at 021-35311861-64 or email at info@vis.com.pk.

Applicable Rating Criteria:

Financial Institutions
https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf
VIS Issue/Issuer Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf