

# JCR-VIS Credit Rating Company Limited

Founder Shareholder - Islamic International Rating Agency (IIRA), Bahrain  
Joint Venture Partner - Credit Rating & Information Services Ltd. (CRISL), Bangladesh  
Member - Association of Credit Rating Agencies in Asia (ACRAA)

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Confidential

Mr. Tariq Ahsan  
Acting CEO  
Sindh Bank Limited  
3<sup>rd</sup> Floor, Federation House  
Abdullah Shah Ghazi Road  
Clifton, Karachi.

## Ratings of Sindh Bank Limited

Dear Mr. Tariq,

JCR-VIS Credit Rating Company Ltd. (JCR-VIS) has reaffirmed the entity ratings of Sindh Bank Limited (SNDB) at 'AA/A-1+' (Double A/A-One Plus). Outlook on the assigned ratings is 'Stable'.

The ratings assigned to SNDB take into account the shareholding structure with the bank being a wholly owned company of Government of Sindh (GoS). Ratings also draw support from healthy capitalization levels and adequate liquidity profile of the Bank. We have also noted that listing process of the Bank is planned to be completed in the ongoing year which is expected to strengthen capitalization levels and improve governance framework.

We have noted that growth in financing portfolio in the outgoing year was lower compared to the preceding year. Moreover, client and sectoral concentration in the portfolio remains sizeable; reduction in sectoral concentration on a timeline basis has been noted positively. Reported infection in the portfolio has increased on a timeline basis with performing portfolio including clients with weak risk profiles. We have been informed that management expects settlement of non-performing financing shortly while comfort is also drawn from sizeable general provisions undertaken by the Bank. With significant exposure to Pakistan Investment Bonds (PIBs) having high duration, market risk emanating from the same is considered sizeable. Comfort is drawn from the surplus on revaluation of PIBs while proactive interest rate management of PIB portfolio is considered important.

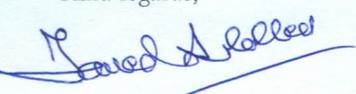
Sizeable growth in deposit base and decline in the proportion of GoS deposits has been noted in the outgoing year. However, market share is low vis-à-vis peers given the bank's short history. Deposit profile and mix also need improvement as it currently features high concentration and low proportion of retail deposits. Moreover, proportion of current accounts is low vis-à-vis peers and break-even time for branches is on the higher side. Liquidity profile of the Bank draws comfort from sizeable liquid assets carried on the balance sheet.

We have noted growth in profitability of SNDB despite sizeable general provisions undertaken in 2015. However, diversity in income sources is limited with low contribution of fee based income in total revenues. In line with banking sector trend, operating profitability and net interest income has witnessed a decline during 1Q16. Given the long breakeven time for branches, which might increase further in the current low interest rate environment, profitability of the bank may witness pressure with maturity of PIBs.

Please note that ratings remain under surveillance during the period of the contract. Any material developments that may impact the risk profile of the bank may please be notified to us promptly.

We would like to express our appreciation for the courtesy and cooperation extended to us during the course of the rating assignment.

Kind regards,

  
Javed Callea,  
Advisor