

JCR-VIS Credit Rating Company Limited

Founder Shareholder - Islamic International Rating Agency (IIRA), Bahrain
Joint Venture Partner - Credit Rating & Information Services Ltd. (CRISL), Bangladesh
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Press Release

JCR-VIS Maintains Entity Ratings of Sindh Bank Limited

Karachi, June 30, 2017: JCR-VIS Credit Rating Company Ltd. (JCR-VIS) has maintained the entity ratings of Sindh Bank Limited (SNDB) at 'AA/A-1+' (Double A/A-One Plus). Ratings have been placed on 'Rating Watch-Developing' status in view of the ongoing merger with another commercial bank. The previous rating action was announced on June 28, 2016.

Current ratings of SNDB take into account the shareholding structure of the bank being vested with Government of Sindh (GoS). Ratings also reflect strong capitalization levels and liquidity profile of the company. Furthermore, profitability of SNDB has also improved in the outgoing year owing to the lower provisions made during the year.

During the outgoing year, the GoS through Sindh Bank Limited and majority shareholders of another commercial bank have agreed in principle to consider the merger of the two institutions. The regulatory details with respect to the merger are expected to be executed within the upcoming quarter; ratings will be reviewed once the merger deal is executed and finalized structure of the surviving entity is made available.

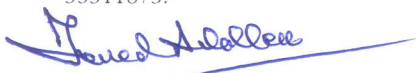
Deposit base of the bank witnessed growth in the outgoing year with concentration remaining on the higher side vis-à-vis peers, given the bank's relatively nascent operations. Increase in deposit base was primarily deployed in Government Securities, supporting the sizeable liquidity buffer carried on the balance sheet. Investment portfolio of the bank represented approximately half of the asset base at end 2016. However, interest rate risk of the portfolio has increased in view of enhanced holding in PIBs with longer duration. Proactive market risk management is considered important in order to avoid losses in case of adverse movement in interest rates.

Gross advances of the bank exhibited growth of 20% during the year. However, the same features client wise concentration. Some of the large performing exposures in the bank's loan book have weak risk profiles. Going forward, the bank plans to enhance its exposure in energy sector and consumer lending through car financing. Spreading out exposures within sectors may facilitate the bank in managing its future lending activities.

Reported infection in the portfolio has increased on a timeline basis. Non-performing loans (NPLs) exhibited an increase vis-à-vis the preceding year. However, management has undertaken sizeable general provisions over and above regulatory requirement to cover for future loan losses.

While declining on a timeline basis, Capital Adequacy Ratio (CAR) stood at a healthy 18.3% (2015: 20.13%; 2014: 22.5%) at end-2016. Given the expected merger with a commercial bank, CAR of SNDB is projected to decline while remaining in compliance with the regulatory requirement. Post-merger, asset quality indicators, banking IT system and HR integration would be among the important rating drivers.

For further information on this rating announcement, please contact the undersigned (Ext: 201) at 021-35311861-71 fax to 021-35311873.



Javed Caffea
Advisor

Applicable rating criterion: Commercial Banks Methodology – November 2015

<http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf>

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