

**Report Date: July 04, 2014**

Ratings	Latest	Previous
Entity	AA-/A-1+	AA-/A-1+
Outlook	Positive	Stable
Date	June 30, '14	Jun 28, '13

**Sindh Bank Limited****Rating Rationale**

Sindh Bank Limited (SBL) is a wholly owned entity of the Government of Sindh through Ministry of Finance. The bank is adequately capitalized having net equity of Rs. 11.3b (FY12: Rs. 11.1b). Given the growth in advances, Capital Adequacy Ratio (CAR) decreased to 23.97% (FY12: 38.51%) in 2013 and 21.83% in 1Q14. Excess capital is likely to be absorbed as the bank continues to expand its lending activities; though overall capitalization is expected to remain strong over the foreseeable horizon, assuming no material deterioration in asset quality.

In 2013, the bank expanded its footprint further, with 200 branches at year-end 2013. Another 25 branches are proposed to be set-up in the on-going year, including 5 Islamic banking branches. As most branches are still new, the deposit profile is currently not broad based; top 50 deposits represented 53.9% of the total deposits. There has nevertheless been improvement in deposit profile over time. Developing granularity in deposit mix will be important to maintain sound liquidity profile. Overall liquidity profile is considered sound in view of the sizeable liquidity buffer carried on balance sheet, with liquid assets comprising 52% (FY12: 68%) of deposits & borrowings (adjusted for repo) at end 1Q14.

The bank has been able to achieve improvement in cost of deposits in 2013, primarily due to reduced reliance on costly GoS deposits and growth in market based deposits, which are less expensive. In 1Q14, there was some increase noted in cost of deposits to 6%. The bank is projecting deposits of Rs. 67b by end 2014; a larger branch network is likely to facilitate the achievement of growth targets.

Balance sheet composition witnessed change on account of growth in financing activities and reduction in investment portfolio at year-end. While exposures have been built in new sectors, sugar continues to comprise the largest proportion of the corporate loan book. Sugar sector financing is generally seasonal in nature & hence mostly short term; however, the bank continues to have sizeable exposure in this sector throughout the year. Client wise concentration is also on the higher side. Delinquencies in the portfolio have been minimal. Diversification in portfolio is nevertheless warranted to address concentration related risks. Commodity related sectors are likely to dominate the bank's lending portfolio given the management's favorable outlook regarding the same.

Lately, the bank's exposure to interest rate risk has heightened in view of enhanced holding in PIBs having long duration, in anticipation of interest rate cut. Given the interest rate volatility in the market, interest rate risk arising from this position is considered on the higher side. The bank has sufficient loss absorption capacity to withstand adverse changes in interest rates on portfolio valuation. Equity market (including listed shares and stock funds) exposures represented about 15% of the bank's own equity.

As the bank made additional investment in infrastructure, core earnings came under pressure, declining to Rs. 458.3m (FY12: Rs. 983.5m). There has however been improvement in 1Q14 as mark-up spreads widened to 4.2%. The bank is targeting net profit of Rs. 892m for 2014. The continuing infrastructural development cost is likely to impact profitability till such time business activity is commensurate with the bank's outreach.

**About The Institution:**

Sindh Bank Limited was incorporated as a public limited unlisted company in October 2010. Government of Sindh has 100% shareholding in the bank. The bank had total branch network of 200 at end-2013.

**Chairman:** Mr. Afzal Ghani

**President & CEO:** Mr. M. Bilal Sheikh

**Rating Analysts:**

Sobia Maqbool, CFA  
Amir Shafique

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: ENTITY</u>				
30-Jun-14	AA-	Positive	A-1+	Maintained
28-Jun-13	AA-	Stable	A-1+	Maintained
21-Apr-12	AA-	Stable	A-1	Reaffirmed
25-Feb-11	AA-	Stable	A-1	Initial