

## RATING REPORT

### Samba Bank Limited

**REPORT DATE:**

June 29, 2017

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	AA	A-1	AA	A-1
<b>Outlook</b>	Stable		Stable	
<b>Outlook Date</b>	Jun 23, 2017		Jun 23, 2016	

#### COMPANY INFORMATION

<b>Incorporated in 2007</b>	<b>External auditors:</b> A.F. Ferguson and Co.
<b>Public Limited Company</b>	<b>Chairman of the Board:</b> Dr. Shujaat Nadeem
<b>Key Shareholders (with stake 5% or more):</b> Samba Financial Group – 84.5%	<b>Chief Executive Officer:</b> Mr. Shahid Sattar

#### APPLICABLE METHODOLOGY

JCR-VIS Commercial Banks Rating <http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf>

## Samba Bank Limited (SBL)

OVERVIEW OF  
THE  
INSTITUTION

Samba Financial Group, incorporated in Kingdom of Saudi Arabia, acquired a significant stake in the bank in early 2007 and the bank was rebranded as Samba Bank Limited. The bank is listed on Pakistan Stock Exchange.

**Profile of Chairman**

Dr. Shujaat Nadeem serves on several boards and senior committees at SFG and his career before Samba was with Citigroup where he held senior positions in US and UK. He holds a Ph.D., MSc. and BSc. from Massachusetts Institute of Technology (MIT).

**Profile of CEO**

Mr. Shahid Sattar spearheads the management team at SBL. Mr. Sattar has significant experience in the banking sector in Pakistan and abroad, having been associated with prominent institutions at key positions. Prior to joining SBL, Mr. Sattar was heading the retail function at United Bank Limited.

## RATING RATIONALE

Samba Bank Limited (SBL) is a majority owned subsidiary of Samba Financial Group (SFG). The parent institution is a leading corporate and retail bank based in Kingdom of Saudi Arabia (KSA). In addition to Pakistan, the group has presence in London, Dubai and Qatar. In March 2017, Fitch downgraded the long-term issuer default rating of Samba Financial Group (SFG) from 'A' (negative outlook) to 'A-' (stable outlook) on account of downward pressure on sovereign rating of KSA. During 2017, SBL completed migration to Temenos T24 (T24) centralized core banking system.

**Sponsor Profile:** The assigned ratings of SBL are underpinned by strong profile of its sponsor, SFG. SFG, on a standalone basis, has a robust financial risk profile and is regarded as one of the leading banks in KSA. Asset base of SFG was reported at SAR 231.5b with SAR 42.8b worth of Tier 1 Equity at end-December 2016. Ratings also factor in strong financial support enjoyed by SBL as evident from multiple equity injections in the past.

**Advances:** Gross financing portfolio of SBL increased by 18.0% to reach at Rs. 31.0b (2015: Rs. 26.3b) at end-2016. With a limited loan book, market share in terms of domestic gross advances stands lowest among peers. Corporate financing continues to be the mainstay of the bank's lending portfolio. Management envisages growing its financing portfolio especially its corporate and commercial portfolios. The bank has also re-launched its consumer banking products in order to assist in growth in advances. Infection in the portfolio increased to 7.7% (2015: 7.5%) and 1.0% (2015: 0.2%) on a gross and net basis, respectively.

**Liquidity:** Deposit base of the bank increased to Rs. 50.3b (2015: Rs. 38.8b) in the outgoing year. However, market share in terms of deposits still remains limited at 0.4%. Growth in deposits was primarily a function of fixed deposit mobilization. Consequently, proportion of Current & Saving Accounts (CASA) stands on the lower side in relation to peers. Continued focus on attracting current and saving account deposits is expected by attracting customers who are more likely to maintain transactional accounts. Given sizeable depositor concentration exists, the need to develop a more granular deposit base is important.

**Investments:** Exposure in government securities amounts to Rs. 56.2b and continues to represent majority proportion of the investment portfolio. Thus, credit risk emanating from the same is considered to be on the lower side. Despite sizeable growth in PIBs exposure, exposure to interest rate risk has remained on the lower side. During 2016, investment portfolio exhibited a tilt towards listed equity investments. Given the portfolio size in relation to equity, market risk emanating from the same is deemed manageable.

**Profitability:** Despite spreads under pressure, net markup income of SBL remained largely stable. This was primarily on the back of volumetric growth in earning assets, higher capital gains on sale of investments and provisioning reversal. Fee based income along with income from foreign currency dealing provided further support to profitability. Given that sizeable proportion of government securities is maturing in 2017, spreads may come under further pressure and negatively impact earnings.

**Capitalization:** With growth in risk weighted assets, Capital Adequacy Ratio (CAR) of the bank depicted decline; however, the same remains comfortably above regulatory requirements. Going forward, CAR is expected to decline given the projected growth in advances, albeit expected to remain at an adequate level.

**Samba Bank Limited (SBL)**
**Appendix I**

<b>FINANCIAL SUMMARY</b>			
<i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Total Investments - net	57,237.5	44,726.4	19,953.2
Advances - net	28,790.0	24,187.0	21,812.2
Total Assets	101,414.5	80,166.3	50,581.1
Borrowings	35,847.1	27,325.8	5,964.6
Deposits & other accounts	50,306.8	38,844.3	31,642.1
Subordinated Loans	-	-	-
Tier-1 Equity	11,742.2	11,197.6	10,767.0
Net Worth	12,319.5	11,844.2	11,254.6
<b>INCOME STATEMENT</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Net Mark-up Income	2,105.6	2,142.6	1,812.7
Net Provisioning / (Reversal)	265.5	21.5	(99.4)
Non-Markup Income	1,079.4	805.3	217.3
Operating Expenses	1,980.2	2,060.1	1,646.0
Profit/ (Loss) Before Tax	926.5	815.4	425.3
Profit/ (Loss) After Tax	544.6	430.6	226.1
<b>RATIO ANALYSIS</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Market Share (Advances) (%)	0.6	0.5	0.5
Market Share (Deposits) (%)	0.4	0.4	0.4
Gross Infection (%)	7.7	7.5	9.0
Provisioning Coverage (%)	92.6	105.0	98.0
Net Infection (%)	1.0	0.2	0.2
Cost of deposits (%)	4.6	5.4	7.0
Net NPLs to Tier-1 Capital (%)	2.4	0.4	0.4
Capital Adequacy Ratio (C.A.R (%))	23.9	30.3	36.5
Markup Spreads (%)	2.5	2.9	3.0
Efficiency (%)	80.5	87.1	83.6
Basic ROAA (%)*	0.5	0.5	0.7
ROAA (%)	0.6	0.6	0.5
ROAE (%)	4.5	3.7	2.1
Liquid Assets to Deposits & Borrowings (%)	68.9	70.8	63.5
<i>*recurring income less administrative expenses</i>			

**ISSUE/ISSUER RATING SCALE & DEFINITIONS** **Appendix II**

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	Samba Bank Limited (SBL)				
<b>Sector</b>	Commercial Bank				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	23-Jun-17	AA	Stable	A-1	Reaffirmed
	23-Jun-16	AA	Stable	A-1	Reaffirmed
	30-Jun-15	AA	Stable	A-1	Upgrade
	24-Jun-14	AA-	Stable	A-1	Reaffirmed
	28-Jun-13	AA-	Stable	A-1	Reaffirmed
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-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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