

## Samba Bank Limited

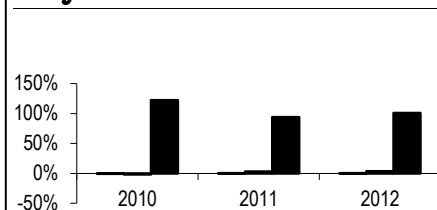
Chairman: Dr. Shujaat Nadeem; President & CEO: Mr. Tanfiq A. Husain

July 01, 2013

**Analysts:** Sobia Maqbool, CFA  
Anum Irfan

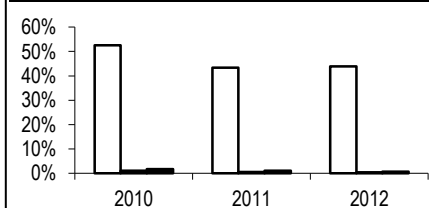
Category	Latest	Previous
Entity	AA-/A-1 Jun 28, '13	AA-/A-1 Jun 29, '12
Outlook	Stable Jun 28, '13	Stable Jun 29, '12

### Key Financial Trends



■\*Basic ROAA% ■ROAE% ■Efficiency%

\* Based on recurring profit before provision and taxation



■CAR (%) ■Net Infection (%) ■Net NPL% Tier 1 Capital

	2010	2011	2012
Net Advances (Rs. in b)	12.1	15.8	15.4
Deposits (Rs. in b)	14.9	17.7	22.8
Market Share %	0.3	0.3	0.3
Deposit Cost (%)	7.4	6.9	6.5
Profit / (Loss) (Rs. in m)	(119.6)	236.5	300.9
Equity (Rs. in b)	7.9	8.2	8.5
CAR (%)	52.6	43.4	43.9
Liquid Assets % Deposits & Borrowings	62	54	63
Net Infection (%)	1.1	0.6	0.4

### Rating Rationale

Samba Financial Group (SFG) has a majority holding of 80.7% in Samba Bank Limited (SBL). Operating mostly in Saudi Arabia, financial risk profile of SFG has remained robust. Financial support from SFG has been demonstrated through multiple equity injections, including the recent advance against issuance of right shares amounting to Rs. 1.6b; the same has facilitated SBL in meeting Minimum Capital Requirement for end-Dec'12 and end-Dec'13. Subsequent to receipt of advance against shares, CAR of SBL has crossed 50%, depicting ample room for leveraging the balance sheet. Over the years, transfer of knowledge and sharing of services by SFG with SBL has been witnessed in the areas of Credit, Risk Management, Internal audit and IT.

Lending portfolio of the bank witnessed a slight decline in 2012; around 93% of gross advances portfolio comprises corporate sector loans. Selection of risks/exposures is governed by the Target Market document, which has been developed collectively by business and risk personnel. Based on the criteria laid down in the document, potential corporate exposures of the bank have been narrowed down to blue-chip companies, operating in stable sectors. Given that in recent years most banks have exhibited risk tolerance for blue-chip companies only, this space has become increasingly competitive translating into further pressure on spreads, which has constrained SBL from achieving the desired growth in this avenue. Advances portfolio of the bank features concentration; larger counterparties in the bank's portfolio are reputed names in the power, telecom, chemicals, textiles and manufacturing sectors. Given the liquidity risk associated with power sector companies, the management has a negative stance on the sector; exposure against power sector companies has been reduced by SBL, with the same comprising 26.3% (FY11: 28.5%) of gross advances. On the investments side also, with more than 99% of portfolio comprising government securities, credit risk is limited. Market risk on the investment portfolio has increased on timeline basis with higher exposure in PIBs. Overall, risk emanating from advances and investments portfolio is considered manageable in relation to equity base of the bank.

As lending activities remained subdued, the bank currently carries excess liquidity on books which has been deployed in government securities. Liquid assets represented 63% of total deposits and borrowings at end-FY12. Deposit base of the bank grew to Rs. 22.8b by end-2012; albeit, below target. Several initiatives are planned by the management to achieve deposit target for FY13. No new branches are planned to be set up in the on-going year; existing branch network is planned to be leveraged further to achieve growth in deposits. Deposit base of the bank has yet to achieve stability; reduction in deposits was witnessed in 1Q13. Concentration in deposit base remained high with top ten deposits representing 20% of total deposits. Given that lending activities are projected to grow at a limited scale only, the bank is expected to continue to hold sizeable liquid reserves on its balance sheet, which acts as a mitigant to the high concentration levels in deposit base.

Operational performance of the bank depicted weakening in FY12 compared to prior year. Decline in policy rate by SBP translated into slightly lower spreads which off-set the impact of balance sheet growth achieved by the bank. Moreover, expenses of the bank witnessed an increase as full-cost of Group Shared Services was recorded in 2012 (FY12: Rs. 66.7m; FY11: Rs. 12.5m). Profit before tax for FY12 was lower at Rs. 164m (FY11: Rs. 201m). Greater breadth and scale in operational activities is required to achieve consistent growth in profits. Over the past one year, turnover has been witnessed in senior management positions of the bank. Position of Head of Consumer Banking and Head of Distribution are currently vacant; strategic initiatives related to these functions are currently overseen by the CFO. As for the audit department, the Lead Reviewer is serving as Acting Head, until any full time appointment is made.

### 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 all three stock exchanges in Pakistan. Financial statements for the year ended December 31, 2012 were audited by M/s A.F. Ferguson & Company **JCR-VIS**

