

Samba Bank Limited

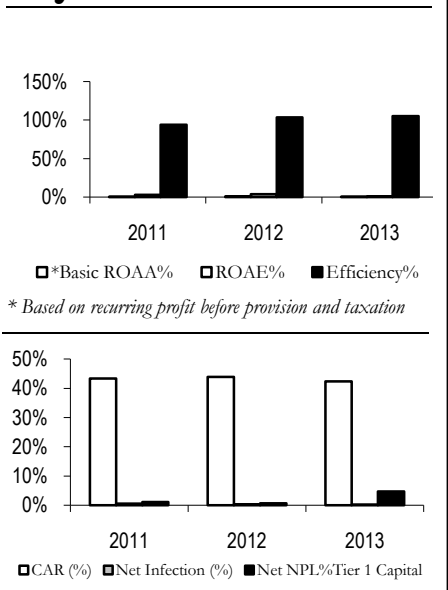
Chairman: Dr. Shujaat Nadeem; President & CEO: Mr. Shahid Sattar

July 2, 2014

Analysts: Sobia Maqbool, CFA
Moiz Badshah

Category	Latest	Previous
Entity	AA-/A-1 Jun 24, '14	AA-/A-1 Jun 28, '13
Outlook	Stable Jun 24, '14	Stable Jun 28, '13

Key Financial Trends



	2011	2012	2013
Net Advances (Rs. in b)	15.8	15.4	18.3
Deposits (Rs. in b)	17.7	22.8	24.6
Market Share %	0.3	0.3	0.3
Deposit Cost (%)	6.9	6.5	5.6
Profit / (Loss) (Rs. in m)	236.5	300.9	84
Equity (Rs. in b)	8.2	8.5	10.2
CAR (%)	43.4	43.9	42.38
Liquid Assets % Deposits & Borrowings	54	63	66
Net Infection (%)	0.6	0.35	0.26

Rating Rationale

The ratings assigned to Samba Bank Limited (SBL) are driven by the strong profile of its sponsor, the Samba Financial Group (SFG), which is a prominent bank in Saudi Arabia. Given the resources available with SFG and the size of SBL in context of the same, ability to provide support is considered strong. Moreover, SFG has demonstrated its financial commitment towards SBL by way of timely injection of capital, in line with the local regulatory requirements.

Key strengths of the bank include its strong capitalization and sound asset quality. At current levels, the bank has room to grow its risk weighted assets by more than Rs. 40b; given the bank's growth plans, capitalization levels are expected to remain in excess of the regulatory requirement over the rating horizon.

The bank's credit risk appetite is well articulated and regulated through a well defined target market document, credit policy and an internal risk rating model which conforms to SFG's lending practices while taking into account the local market dynamics. The portfolio comprises counterparties with sound risk profile. Given the high sector and client concentration, the management is actively working towards forging new relationships with lower per party exposures while target market sectors have also been broadened. The soundness of the bank's lending strategy is evident in negligible accretion of fresh NPLs since the SFG takeover. Limited fee based income indicates potential to deepen non-fund based relationships with the corporate clientele.

Growth in financing activities however remains restricted by the limited deposit growth. With a network of only 28 branches, deposit mobilization may remain a challenge unless the bank is able to position itself in any particular niche. Branch expansion is proposed to remain limited with only 2 branches to be set up in 2014 and another 6-8 in the coming year. Total deposits amounted to Rs. 24.5b at end-2013, increasing to Rs. 26.6b in 1Q14. Following the change at the helm of the institution, there have been considerable changes at other management cadres as well, including the induction of Distribution Head as well as front-end staff, with the aim to weed out non-productive resources. SBL has also made changes to the incentive structure to achieve a more consistent increase in deposits. Impact of the same will be tested over time.

Despite reduction in deposit cost, mark-up spreads earned by the bank were marginalized to 3.1% in 2013 (FY12: 3.9%). Increase in resource base, while maintaining sound asset quality, may be required to achieve sustained improvement in profitability.

With a shared name, SBL has significant potential to leverage the SFG franchise, which hitherto remains untapped. The bank has also yet to exploit business opportunities that may be present on account of its lineage and could be a source of fee based income.

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, 2013 were audited by M/s A.F. Ferguson & Company **JCR-VIS**

JCR-VIS Credit Rating Company Limited

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

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: ENTITY</u>				
24-Jun-14	AA-	Stable	A-1	Reaffirmed
28-Jun-13	AA-	Stable	A-1	Reaffirmed
29-Jun-12	AA-	Stable	A-1	Upgrade
29-Jun-11	A+	Stable	A-1	Upgrade
29-Jun-10	A	Stable	A-1	Reaffirmed