RATING REPORT

Samba Bank Limited

REPORT DATE:
July 1, 2015

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA	A-1	AA-	A-1
Outlook	Stable		Stable	
Outlook Date	*June 30' 15*		*June 24' 14*	

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY

JCR-VIS Commercial Banks Rating *http://jcrvis.com.pk/images/primercb.pdf*

Samba Bank Limited (SBL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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.

RATING RATIONALE

The ratings assigned to Samba Bank Limited (SBL) are driven by the strong profile of its sponsor, the Samba Financial Group (SFG), a prominent banking group in Saudi Arabia and rated amongst the Top 50 safest banks worldwide by Global Finance. Given the resources available with SFG, with an asset base exceeding USD 58b and more than USD 10b of equity, and the size of SBL in context of the same, ability to provide support is considered strong. SFG has demonstrated its commitment towards SBL by way of timely injection of capital; SFG holds 84.5% of the bank's shares.

Ratings also reflect SBL's strong risk profile on a standalone basis as underpinned by strong capitalization, liquidity and asset quality indicators. With a CAR of 37.1%, the bank has ample room to grow its risk weighted assets. Moreover management has developed a long term business plan which envisages healthy liquidity and capitalization buffers; CAR is projected to be maintained at over 19.5% over the next 5 years.

With a deposit base of Rs. 31.6b, the bank's current market share in terms of deposits is very limited at under 0.4%. The bank is working on a growth oriented strategy; branch network, which is currently the smallest in the banking sector, is proposed to be enhanced to 100 over the next 5 years to support the bank's growth targets. With significant deployment in GoP securities and equity in relation to total assets of almost 22.0%, the bank currently has a relatively liquid balance sheet mix. This mitigates the risks associated with asset/liability mis-match and high deposit concentration levels.

Given a well-articulated policy framework for undertaking financing and investment exposures, credit risk on the bank's books remains within manageable limits with exposure primarily against blue-chip corporate. Growth of almost 19% was witnessed in loan portfolio with net advances standing at Rs. 21.8b at end-2014, increasing to Rs. 22.6b in 1Q15. Total exposure to the Government of Pakistan, both by way of sovereign instruments or public sector lending, represented almost 40% of the resource base; amongst public sector exposures, problems were faced with respect to 2 counterparties in the power sector with a cumulative exposure of Rs. 1.8b. The loan portfolio has been diversified with several new parties added to the corporate book; launch of commercial banking operations is also on the anvil. The soundness of the bank's lending strategy is evident in negligible accretion of fresh NPLs. Significant investment in IT infrastructure is projected in future to accommodate the expansion plan, including the implementation of a new core banking system in FY16.

Core earnings improved in 2014 on the back of growth in loan book, while the bank has also locked in high rates on long term PIBs. This is likely to enable the bank to weather the impact of decline in interest rates in the near to medium term. Once the existing PIB holdings begin to mature, the bank could be faced with pressure on spreads if the declining interest rate environment persists, unless any meaningful reduction in cost of deposits is achieved. The management has also undertaken cost rationalization measures to improve operating efficiency, though it remains weaker than benchmark stipulated for assigned rating as also the 66% median for banks rated in the AA category. Fee based income is currently limited and the bank is working on this area. Return on equity was reported at 2% for 2014 vis-à-vis 18% median for banks rated in the AA category.

Samba Bank Limited (SBL) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Total Investments - net	19,953.2	13,991.5	8,894.9
Advances - net	21,812.2	18,269.4	15,444.8
Total Assets	50,581.1	40,001.5	34,853.8
Borrowings	5,964.6	2,987.4	2,477.5
Deposits & other accounts	31,642.1	24,632.6	22,753.6
Subordinated Loans	-	-	-
Tier-1 Equity	10,766.9	10,154.4	8,473.7
Net Worth	11,254.6	10,131.2	8,515.9
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Mark-up Income	1,812.7	1,383.9	1,332.2
Net Provisioning / (Reversal)	(99.4)	(89.9)	(90.6)
Non-Markup Income	217.3	160.5	154.5
Operating Expenses	1,645.9	1,550.8	1,458.2
Profit/ (Loss) Before Tax	425.3	81.7	164.0
Profit/ (Loss) After Tax	226.1	84.3	300.9
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Market Share (Advances) (%)	0.5	0.4	0.4
Market Share (Deposits) (%)	0.4	0.3	0.3
Gross Infection (%)	9.0	11.4	13.7
Provisioning Coverage (%)	98.0	97.8	97.6
Net Infection (%)	0.2	0.3	0.4
Cost of deposits (%)	6.9	5.6	6.5
Net NPLs to Tier-1 Capital (%)	0.4	0.5	0.6
Capital Adequacy Ratio (C.A.R (%))	37.1	46.7	43.9
Markup Spreads (%)	3.2	3.1	3.9
Efficiency (%)	83.6	100.8	100.9
Basic ROAA (%)*	0.7	-0.03	-0.04
ROAA (%)	0.5	0.2	0.9
ROAE (%)	2.1	0.9	3.6
Liquid Assets to Deposits & Borrowings (%)	63.5	63.4	63.4
***recurring income less administrative expenses**			

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

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.

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

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

(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 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

'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.

REGULATORY DISCLOSURES Appendix III

Name of Rated Entity	Samba Bank Limited (SBL)
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	See table below
Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-Jun-15	AA	Stable	A-1	Upgrade
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