

RATING REPORT

Samba Bank Limited

REPORT DATE:

June 28, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA	A-1	AA	A-1
Outlook	Stable		Stable	
Outlook Date	June 23, 2016		Jun 30, 2015	

COMPANY INFORMATION

Incorporated in 2007	External auditors: A.F.Ferguson and Co.
Public Limited Company	Chairman of the Board: Dr. 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://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.

RATING RATIONALE

Ratings assigned to Samba Bank Limited (SBL) are driven by sound profile of its sponsor. Samba Financial Group (SFG), a leading Saudi Arabian banking group, holds 84.51% stake in SBL. In 2016, SFG was rated as the best bank in Saudi Arabia by 'Global Finance'. Given the sizeable asset base of USD 62.7b and sound credit rating of SFG, ability to provide financial support to SBL is considered strong; SFG has demonstrated commitment in the form of timely capital injections in SBL.

In addition to strong sponsor profile, risk profile of SBL is also considered sound on a standalone basis as reflected by its adequate capitalization and liquidity indicators. Asset quality indicators have also witnessed some improvement on a timeline basis. The bank has a conservative asset deployment strategy given that sizeable proportion of the markup bearing assets constitutes exposure in sovereign entities/instruments. During 2015, SBL has also initiated commercial banking services for mid-tier clients. Moreover, post migration to new core banking system, Temenos T-24, the bank plans to re-launch its discontinued consumer banking products.

- **Advances:** Loan portfolio of the bank witnessed growth of 10% during 2015. Corporate financing continues to be the mainstay of the bank's lending portfolio. Despite decreasing on timeline basis, textile sector loans continued to form largest proportion of overall advances portfolio. Some of the textile customers have experienced operational losses mainly on account of fall in demand for textile exports. However, as these companies are backed by well-reputed sponsors, management expects the operational performance of these companies to improve in the following quarters. As per management, textile obligors are regular in payments to SBL despite being under industry driven stress. Infection in the portfolio was reported at 8.7% (2015: 7.5%; 2014: 9.0%) on a gross basis at end-1Q16. Infected portfolio largely comprises legacy exposures pending from 2003. Moreover, net infection (based on specific provisions) remained unchanged at 0.2% at end-March 2016.
- **Investments:** Given that majority of investments constitute sovereign exposure, credit risk stemming from the same is considered limited. However, market risk emerging from the portfolio has increased on account of higher weighted average duration of 2.4 years (2015: 1.6 years; 2014: 2.0 years) at end-1Q16.
- **Liquidity:** Deposit base of the bank witnessed sizeable growth and amounted to Rs. 41.2b (2015: Rs. 38.8b; 2014: Rs. 31.6b) at end-March 2016. Reduction in downtime of ATMs and expansion in branch network (2015: 34; 2014: 28) aided in deposit mobilization. To date, SBL has the smallest branch network in comparison to its peers. Going forward, management envisages growing its reach by adding 6 branches each year. Concentration in deposits continues to remain high with top-10 depositors representing 30.4% (2014: 31.4%) of the total deposit base. Consequently, management needs to ensure further granularity in deposits to mitigate concentration risk. In the light of sizeable liquid assets, overall liquidity profile of the bank is considered adequate.
- **Profitability:** Despite pressure on spreads during 2015, SBL managed to increase its interest income on the back of volumetric growth. Higher net interest income coupled with capital gains (2015: Rs. 484.8m; 2014: Rs. 37.2m) and gain on disposal of fixed assets (2015: Rs. 96.4m; 2014: Rs. 9.8m) translated into overall increase in profitability (2015: Rs. 430.6m; 2014: Rs. 226.1m) during the outgoing year. By end-March 2016, the bank's profitability stood at Rs. 178.3m vis-à-vis Rs. 96.1m in the preceding year's corresponding quarter. Going forward, the bank may witness further pressure on spreads mainly due to partial re-pricing of high yielding investment portfolio.
- **Capitalization:** While declining on a timeline basis, Capital Adequacy Ratio (CAR) of the bank remained sizeable at 30.3% (2014: 36.5%) at end-2015, thereby signifying substantial room for growth in risk weighted assets. 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

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
BALANCE SHEET	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Total Investments - net	44,726.4	19,953.2	13,991.5
Advances - net	24,187.0	21,812.2	18,269.4
Total Assets	80,166.3	50,581.1	40,001.5
Borrowings	27,325.8	5,964.6	2,987.4
Deposits & other accounts	38,844.3	31,642.1	24,632.6
Subordinated Loans	-	-	-
Tier-1 Equity	10,855.0	10,575.3	10,107.9
Net Worth	11,844.2	11,254.6	10,131.2
INCOME STATEMENT	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Net Mark-up Income	2,142.6	1,812.7	1,383.9
Net Provisioning / (Reversal)	21.5	(99.4)	(89.9)
Non-Markup Income	805.3	217.3	160.5
Operating Expenses	2,060.1	1,646.0	1,550.8
Profit/ (Loss) Before Tax	815.4	425.3	81.7
Profit/ (Loss) After Tax	430.6	226.1	84.3
RATIO ANALYSIS	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Market Share (Advances) (%)	0.5	0.5	0.4
Market Share (Deposits) (%)	0.4	0.4	0.3
Gross Infection (%)	7.5	9.0	11.4
Provisioning Coverage (%)	105.0	98.0	97.8
Net Infection (%)	0.2	0.2	0.3
Cost of deposits (%)	5.4	7.0	5.6
Net NPLs to Tier-1 Capital (%)	0.4	0.4	0.5
Capital Adequacy Ratio (C.A.R (%))	30.3	36.5	46.7
Markup Spreads (%)	2.9	3.0	3.1
Efficiency (%)	87.1	83.6	100.8
Basic ROAA (%)*	0.5	0.7	-0.03
ROAA (%)	0.6	0.5	0.2
ROAE (%)	3.9	2.1	0.9
Liquid Assets to Deposits & Borrowings (%)	70.8	63.5	63.4
<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

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

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

'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	
Name of Rated Entity	Samba Bank Limited (SBL)				
Sector	Commercial Bank				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	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
	29-Jun-12	AA-	Stable	A-1	Upgrade
	29-Jun-11	A+	Stable	A-1	Upgrade
	29-Jun-10	A	Stable	A-1	Reaffirmed
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.				
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