RATING REPORT

Samba Bank Limited (SBL)

REPORT DATE:
June 27, 2018

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	*22nd June, 2018*		*23rd June, 2017*	

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	RATING POINTERS

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 in the bank and his career before Samba was with Citigroup where he held senior positions in US and UK. Dr. Nadeem did his undergraduate and graduate degrees from USA. 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 POINTERS

Samba Bank Limited (SBL) is a subsidiary of the Samba Financial Group of the Kingdom of Saudi Arabia, with a domestic deposit market share of 0.4% in 2017 (2016: 0.4%).The current number of branches of SBL are 37. The management team of SBL comprises seasoned professionals and stability of the same has also been observed.

SBL's risk profile is considered sound on a standalone basis as evident from its adequate capitalization and liquidity indicators. Size of advances portfolio is considered low vis-à-vis peers, however, advances has showcased growth on a timeline basis. SBL has also acquired additional resources in its Lahore and Faisalabad offices to cater to a foreseeable increase in commercial and SME clients.

Sponsor Profile: The assigned ratings of SBL are underpinned by strong profile of its sponsor, Samba Financial Group (SFG). SFG, on a standalone basis, has a strong financial risk profile and is regarded as one of the leading banks in KSA. Total assets and Tier 1 equity of SFG was reported at SAR 227.6b (USD 60.7b) and SAR 44.6b (USD 11.9b) at end December 2017. Ratings of SBL also factor in strong financial support from SFG in the form of multiple equity injections in the past. In March 2017; an international rating agency downgraded SFG from 'A' (negative outlook) to 'A-' (stable outlook). The same rating agency reaffirmed the long-term issuer default rating of SFG at 'A-' in September 2017.

Investments: Investment portfolio of SBL amounted to Rs. 62.9b in 2017 of which more than 95% constitutes exposure in government securities. Therefore, credit risk emanating from the same is considered low. Duration of PIB portfolio has been reduced to 1.04 years in March 2018 as opposed to 1.5 years at end 2017 in order to limit losses in case interest rates increase. Sensitivity to interest rate changes has decreased on a timeline basis.

Asset Quality: Financing portfolio of SBL has exhibited strong growth to reach Rs. 42.5b (2016: Rs. 31.0b) at end 2017. However, market share in terms of domestic gross advances remains lowest among peers on the back of limited loan book. At present, corporate financing continues to be the mainstay of the bank's lending portfolio, however, SBL's management has strategized to target high end commercial clients for the financing portfolio going forward. Infection levels of the portfolio in 2017 amounted to 5.5% (2016: 7.7%) and 0.1% (2016: 0.9%) on a gross and net of provision basis, respectively.

Liquidity: Liquidity profile of the bank has weakened during the outgoing year; however, the same remains at adequate levels as liquid assets in relation to deposits and borrowings (adjusted for repo) stood lower at 43.8% at end 2017 (2016: 50.8%). SBL's deposit base grew by 9.1% in 2017 to Rs. 54.6b (2016: Rs. 50.3b). Depositor concentration has decreased in 2017 with top 50 deposits constituting 57.0% (2016: 59.4%) and top 10 deposits representing 31.7% (2016: 36.4%) of deposit base. On the other hand, deposit mix has improved leading to a reduction in cost of deposits. As deposit granularity is a function of branch network, concentration is expected to remain high with the management targets set for 2018.

Capitalization: Capitalization indicators of SBL have depicted an efficient uptake of earning assets vis-à-vis asset quality during 2017 on the back of growth in advances and hence the Risk Weighted Assets (RWA). Resultantly, the Capital Adequacy Ratio (CAR) of the bank stood lower at 19.7% (2016: 23.9%) at end 2017. However, there is sufficient buffer over the regulatory CAR requirement, indicating considerable room for growth in the risk weighted assets of SBL.

Profitability: SBL's Net Interest Margin (NIM) improved in 2017 primarily on the back of increase in advances. Absence of high yielding PIBs has led to decrease in spreads in 2017. Increase in non-funded income and NIM compensated for the absence of sizeable capital gains booked in 2016 thereby maintaining profit before tax at similar levels as last year. Due to unutilized tax losses, taxation for the year was lower resulting in an increase in net profit to Rs.738.9m for 2017 (2016: Rs.544.6m). As recurring income (including NIM and Non funded income) was higher this year, efficiency improved to 73.5% for FY17 (FY16: 79.8%).

Samba Bank Limited (SBL) — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Total Investments - net	62,918.1	57,237.5	44,726.4
Advances - net	40,181.8	28,790.0	24,187.0
Total Assets	117,151.0	101,414.5	80,166.3
Borrowings	46,201.5	35,847.1	27,325.8
Deposits & other accounts	54,901.5	50,306.8	38,844.3
Subordinated Loans	-	-	-
Tier-1 Equity	12,481.0	11,742.2	10,855.0
Net Worth	12,708.2	12,319.5	11,844.2
INCOME STATEMENT	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Net Mark-up Income	2,359.3	2,105.6	2,142.6
Net Provisioning / (Reversal)	99.2	265.5	21.5
Non-Markup Income	715.1	1,079.4	805.3
Administrative Expenses	2,023.0	1,961.8	2,060.1
Profit/ (Loss) Before Tax	930.9	926.5	815.4
Profit/ (Loss) After Tax	738.9	544.6	430.6
RATIO ANALYSIS	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Market Share (Advances) (%)	0.7%	0.6%	0.5%
Market Share (Deposits) (%)	0.4%	0.4%	0.4%
Gross Infection (%)	5.5%	7.7%	7.5%
Provisioning Coverage (%)	99.4%	92.6%	105.0%
Net Infection (%)	0.1%	1.0%	0.2%
Cost of deposits (%)	4.4%	4.6%	5.4%
Net NPLs to Tier-1 Capital (%)	0.3%	2.4%	0.4%
Capital Adequacy Ratio (C.A.R (%))	19.7%	23.9%	30.3%
Markup Spreads (%)	2.1%	2.5%	3.1%
Efficiency (%)	73.5%	79.8%	87.1%
Basic ROAA (%)*	0.7%	0.5%	0.5%
ROAA (%)	0.7%	0.6%	0.7%
ROAE (%)	6.1%	4.8%	3.9%
Liquid Assets to Deposits & Borrowings (%)	43.8%	50.8%	70.7%
****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 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				
22-June-18	AA	Stable	A-1	Reaffirmed
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
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.
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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