RATING REPORT

Samba Bank Limited (SBL)

REPORT DATE:
June 26th, 2019

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	*24th June 2019*		*22nd June 2018*	

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
VIS Commercial Banks Rating
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-CommercialBanks201803.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.

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).

RATING POINTERS

Samba Bank Limited (SBL) is a majority owned subsidiary of Samba Financial Group (SFG). SBL is engaged in provision of banking services in Pakistan and is categorized as a small to mid-sized bank with market share of 0.5% (2017: 0.4%) in deposits in 2018. The bank operates via 37 branches located all over Pakistan and plans to open another 3 branches in 2019. The bank has deployed Temenos T24 (T24) as its centralized core banking system. It includes all the basic modules including branch banking, trade finance, corporate loans and anti-money laundering.

Sponsor Profile: The assigned ratings of SBL are underpinned by strong profile of its sponsor, Samba Financial Group (SFG). The Samba Financial Group (SFG) is one of the largest banking groups in Kingdom of Saudi Arabia (KSA). As of December 2018, SFG's asset base stood around SAR 229.9b (USD 61.3b), while Tier I equity amounted to SAR 44.2b (USD 11.8b). SFG has been assigned the Long-Term Issuer Default Rating (IDRs) of 'A-' with a stable outlook by an International credit rating agency in 2018.

Advances: Gross advances of SBL increased by 31.5% to reach Rs. 55.9b (2017: Rs. 42.5b) at end-2018. Overall market share of the bank in advances was reported at 0.71% (2017: 0.65%) in 2018. Market share in advances is considered to be on the lower side vis-à-vis peers. Corporate advances continue to represent major portion of SBL's financing portfolio followed by commercial loans. Gross infection in portfolio decreased to 4.3% (2017: 5.5%) whereas, net infection ratio was reported higher at 0.3% (2017: 0.1%).

Investments: SBL's investment portfolio decreased by 23.7% to Rs. 48.0b (2017: Rs. 62.9b) at end-2018. Credit Risk emanating from investment portfolio is considered minimal, as 93.6% of the investment portfolio was deployed in GoP securities at end-2018. Due to prevalence of increasing interest scenario, the management reduced the exposure in PIBs and deployed some of the additional liquidity in short tenor T-bills. Resultantly, duration of the portfolio reduced to 0.51 years (2017: 1.55 years) at end-2018. Going forward, the management expects to maintain a similar portfolio mix until further clarity regarding interest rate movements is achieved.

Liquidity: In view of the increase witnessed in gross advances to deposits ratio and concentration in deposits, coupled with a decrease in liquid assets in relation to deposits and borrowings, overall liquidity profile of the bank weakened in 2018 in comparison to the preceding year. However, the same remains manageable on an overall basis. Gross Advances (adjusted for ERF borrowings) to Deposit Ratio (ADR) observed an increase to 81.3% (2017: 72.6%) and remains on the higher side vis-à-vis the peers. Deposit base of the bank grew by 18.8% to Rs. 65.2b (2017: Rs. 54.9b) at end-2018. Growth in deposit base was achieved on the back of higher current deposits and long term fixed deposits. Management believes that long term deposits will provide support to the liquidity profile.

Profitability: Profitability of the bank depicted improvement in 2018 as a result of increase in the quantum of advances portfolio along with improvement in spreads. Growth in advances portfolio translated into higher markup income for the bank. Moreover, increase in return on markup bearing assets due to rising interest scenario coupled with lower utilization of high cost borrowings, resulted in improvement in spreads. Administrative expenses also witnessed an increase albeit at a slower pace vis-à-vis the recurring income. Hence, efficiency ratio of the bank depicted improvement to 69.4% (2017: 73.5%). Going forward, management is targeting to further increase its operating profitability through growth in advances portfolio funded by low cost deposits.

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

Capitalization: Equity (excluding surplus) of the bank has depicted an increase in 2019 on account of profit retention. With growth in advances portfolio, Capital Adequacy Ratio (CAR) of SBL declined to 19.04% (2017: 19.74%) at end-2018. However, the same maintains comfortable cushion over the regulatory requirement and indicates significant room to increase risk weighted assets. CAR is expected to remain at comfortable level after taking projected growth in advances in 2019.

IT infrastructure: The bank has deployed Temenos T24 (T24) as its core banking system. It includes all the basic modules including branch banking, trade finance, corporate loans and anti-money laundering. In 2018, the Bank successfully completed the PCI-DSS (Payment Card Industry - Data Security Standards) certification exercise. In accordance with the SBP mandate, the Bank has recently established Technology and Risk Governance Framework for FIs. In 2018, the Bank also successfully launched Samba-Smart Mobile Banking application in a bid to increase its customer's base. A Disaster Recovery (DR) site of the bank is also present in Lahore to mitigate operational risk.

Samba Bank Limited (SBL) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2016**	**DEC 31, 2017**	**DEC 31,2018**
Total Investments - net	57,237.5	62,918.1	48,021.4
Advances - net	28,790.0	40,181.8	53,592.3
Total Assets	103,099.7	118,223.5	122,764.6
Borrowings	35,847.1	46,201.5	39,780.6
Deposits & other accounts	50,306.8	54,901.5	65,225.1
Subordinated Loans	-	-	-
Tier-1 Equity	11,393.0	12,274.1	12,663.1
Net Worth	12,319.5	12,708.2	12,783.8
INCOME STATEMENT			
Net Mark-up Income	2,105.6	2,359.3	2,708.4
Provisions and write offs-net	272.4	101.4	68.4
Non-Markup Income	1,079.40	715.1	766.7
Administrative Expenses	1,961.80	2,023.00	2258.8
Profit/ (Loss) Before Tax	926.5	930.9	1109.7
Profit/ (Loss) After Tax	544.6	738.9	682.7
RATIO ANALYSIS			
Market Share (Advances) (%)	0.56%	0.65%	0.71%
Market Share (Deposits) (%)	0.45%	0.44%	0.49%
Gross Infection (%)	7.7%	5.5%	4.3%
Provisioning Coverage (%)	92.6%	99.4%	96.1%
Net Infection (%)	0.97%	0.08%	0.27%
Cost of deposits (%)	4.6%	4.4%	4.8%
Net NPLs to Tier-1 Capital (%)	2.4%	0.3%	1.1%
Capital Adequacy Ratio (C.A.R (%))	23.9%	19.7%	19.04%
Markup Spreads (%)	2.5%	2.1%	2.6%
Efficiency (%)	79.8%	73.5%	69.4%
Basic ROAA (%)*	0.5%	0.7%	0.8%
ROAA (%)	0.60%	0.70%	0.6%
ROAE (%)	4.7%	6.1%	5.3%
Liquid Assets to Deposits & Borrowings (%)	52.5%	46.1%	45.7%
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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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				
24-Jun-19	AA	A-1	Stable	Reaffirmed
22-Jun-18	AA	A-1	Stable	Reaffirmed
23-Jun-16	AA	A-1	Stable	Reaffirmed
30-Jun-15	AA	A-1	Stable	Upgrade
24-Jun-14	AA-	A-1	Stable	Reaffirmed
28-Jun-13	AA-	A-1	Stable	Reaffirmed
29-Jun-12	AA-	A-1	Stable	Upgrade
29-Jun-11	A+	A-1	Stable	Upgrade
29-Jun-10	A	A-1	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	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	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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