

RATING REPORT

Samba Bank Limited (SBL)

REPORT DATE:

June 28, 2021

RATING ANALYSTS:

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Rating Category	RATING DETAILS		Previous Rating	
	Latest Rating		Long-term	Short-term
Entity	AA	A-1	AA	A-1
Outlook	Positive		Stable	
Outlook Date	28 rd June 2021		23 rd June 2020	

COMPANY INFORMATION

Incorporated in 2008	External auditors: KPMG Taseer Hadi 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
Saudi National Bank (formerly Samba Financial Group) – 84.51%	

APPLICABLE METHODOLOGY

VIS Commercial Banks Rating Methodology (June 2020)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Meth-CommercialBanks202006.pdf>

Samba Bank Limited (SBL)

OVERVIEW OF
THE
INSTITUTION

RATING POINTERS

Samba Financial Group (now Saudi National Bank), 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
Detailed profile given in Annexure - I

Profile of CEO

Mr. Shahid Sattar
(Detailed profile given in Annexure - I)

Samba Bank Limited ('SBL' or 'the Bank') is engaged in provision of banking services in Pakistan holding a market share of 0.4% of deposits as of Dec'20 (2019: 0.5%). The Bank is a subsidiary of Saudi National Bank (formerly Samba Financial Group) of Kingdom of Saudi Arabia (KSA), which held 84.51% shares of the Bank's shareholding as of April'2021. SBL currently operates through its distribution network of 40 (2020: 40, 2019: 40) branches.

During 2020, the original parent bank M/s Samba Financial Group (SFG) (of the Kingdom of Saudi Arabia) entered into a legally binding merger agreement with The National Commercial Bank (NCB) (of the Kingdom of Saudi Arabia) dated October 11, 2020, pursuant to which SFG was to merge with and into NCB in accordance with the applicable laws of the Kingdom of Saudi Arabia. In this respect, the merger between SFG and NCB, which has now been renamed as The Saudi National Bank (SNB) has become effective as of April 1, 2021, and SFG has merged with and into SNB, as a result of which SFG has ceased to exist. Consequently, all the assets and liabilities of SFG (including its shareholding in the Bank) stand vested in SNB by operation of law.

Ratings incorporate strengthening in the sponsor profile

The assigned rating of SBL are underpinned by strong profile of its new sponsor Saudi National Bank (formerly Samba Financial Group). Previously, NCB was the largest bank in the Kingdom with an asset base of USD 160b approximately, as of Dec'20, i.e. more than twice the asset base of SFG. The merged entity, SNB, will now be the largest bank of KSA, having an Issuer Default Rating of 'A-' on the international scale.

Market positioning, in terms of assets and advances remained intact. Rise in infection has been proactively provisioned

The gross financing portfolio of SBL has increased by 7% to reach Rs. 68.6b as at Dec'20 (Dec'19: 64.0b), witnessing a further growth of 7% in Q12021. The Corporate segment remained the largest segment in SBL's loan book constituting 54% of the gross advances. SBL has been increasing its advances share in Commercial and SME segment as part of its strategy to increase the yield on advances portfolio. Overall market share of the Bank in terms of advances and deposits has been maintained, albeit its considered to be low vis-à-vis peers. Advances concentration has witnessed improvement due to strategic change in lending portfolio, however, there is room for further improvement, considering the prudent lending practices and limited size of the Bank.

Gross infection declined in 2020, albeit an uptick was noted in Q12021. Net infection remained stable at 0.1% as the management maintained a prudent provisioning strategy; accordingly, the provisioning coverage ratio was strong at 111.1% at Mar'21. Going forward, maintaining asset quality remains a key priority.

Given limited branch operations, SBL's ability to attract low cost funding is limited, while ADR is on the higher side vis-à-vis peers.

Given limited branch operations, SBL's ability to attract low cost funding is limited. During the period under review, much of the asset growth was driven by borrowings followed by deposits. SBL's deposit composition posted improvement, with CASA improving to 48.2% as at Mar'21 from 47.8% as at Dec'20 (Dec'19: 46.6%). At the same time, liquidity profile is characterized by a higher ADR vis-à-vis peers. However, combined with an increase in Cash and Cash Equivalents (CCEs), the ratio of liquid assets to deposits & borrowings has improved and is comparable to peers.

Profitability indicators depict further room for improvement, when compared to the AA rated banks

Overall, the Bank's profitability indicators depict further room for improvement, compared to the AA rated banks. However, SBL's profitability is comparable to small-sized banks median. Cognizant of the effectiveness of branch banking model common across the industry, there are plans to open branches in the medium term. Even though this will push the operating overheads upwards in the short-term, the longer term horizon should allow the Bank to attract low cost funding and improve its net interest margin.

Capitalization indicators are sound and compare favorably to peers

Capital Adequacy Ratio (CAR) displayed an improvement to 20.45% as of Mar'21 compared to 18.18% as of Dec'20 (Dec'19: 17.98%). Increase in the same was due to internal cash generation and tier II issuance of TFC of Rs. 5b. SBL's CAR has considerable cushion over the regulatory requirement and we expect adequate buffers to be maintained over the course of rating horizon.

Annexure I – Profiles of Chairman & CEO

Name	Profile
Dr. Shujaat Nadeem - Chairman	<p>Dr. Shujaat Nadeem serves as the Deputy CEO for Business for Samba Financial Group (SFG) since February 2019, and also serves as Chairman of Board for Samba Pakistan since 2013 and the Chairman of Samba Global Markets Limited since March 2016, he is also a board member of Samba Capital. Dr. Nadeem joined Samba Financial group in Oct. 2003 as the Group Treasurer and was instrumental in building the Global markets and Investment business for the bank over the years and continues to serve in multiple other senior committees and boards on behalf of the bank. Before joining Samba, Dr. Shujaat Nadeem was with Citi group. He started his career with Citi group New York in 1993 and during his career he held key positions in London and New York in derivatives trading. He was promoted to the MD title in 1999 as head of interest rate options trading in London. In 2000, Dr. Shujaat Nadeem took responsibility as Head of the MENA region Citi group sales and trading franchise where in addition to building some key customer relationships he had extensive interaction with the regional regulators and worked closely with several central banks to advise them on market regulatory reforms. Dr. Shujaat Nadeem is also one of the founding members of PEN (Progressive Education Network, pen.org.pk), a non-profit philanthropic organization in Pakistan, committed to promotion of primary and secondary education for the under privileged children. Dr. Nadeem holds a BSc, MSc. & Ph.D. from Massachusetts Institute of Technology (MIT), USA.</p>
Mr. Shahid Sattar - CEO	<p>Mr. Shahid Sattar joined SBL in August 2013 and brings with him four decades of experience in the local and global banking and financial Industry. Mr. Sattar's major experience lies in Retail Banking, Consumer Finance, Branch Operations, Cash Management, Remittance Business, SME and Commercial, Corporate and Islamic Banking. Prior to joining SAMBA Bank Limited, he has worked in UBL, as Head of Corporate & Cash Management and later as Head of Retail, Commercial, Consumer (including Cards, Assets, and Products & Marketing). From September 2010 till December 2012, he was heading NIB Bank Limited as Head of Retail, Commercial & Consumer. He has also worked as Head of Retail & Remittance Business in BankAl-Bilad, Saudi Arabia from November 2007 to September 2010. Mr. Shahid Sattar, has worked in MCB, from August 1998 till October 2007, holding various positions including Head of SAM, Head of Retail Commercial & Consumer, prior to that he has worked in CITI Bank Pakistan in Corporate from 1992 till 1998. He has also worked in Centralized Credit in BCCI from 1981 till 1991 serving at Cairo, London & Abu Dhabi. Mr. Sattar's key agenda in formulating SBL's strategic direction includes Commitment to Business Growth and Increasing Revenue, Controlling Cost, Rationalization of Organizational Structure and improving Service Quality. In addition to that his main focus was to upgrade SBL's Technology which has now implemented T-24 Core Banking System. SBL is now heading towards digitalization and automation for providing better consumer experience at their convenience. He has held many directorships at MNET Services (Pvt.) Ltd. (ATMSWITCH), Bank Al-Bilad Investment Co. Saudi Arabia, PICIC Insurance Co., PICIC Asset Management Co., UBL Asset Management Co during his career and currently holding directorship of Insta Plast (Pvt.) Ltd. Mr. Sattar has done Bachelor in Science (B-Sc.) in Textile Engineering from the University of Engineering and Technology, Lahore and holds Master degree in Business Administration (MBA) in Marketing from the University of Punjab. He has also attended many national and international Seminars and Conferences.</p>

Samba Bank Limited (SBL)
Appendix I

FINANCIAL SUMMARY				
<i>(amounts in PKR millions)</i>				
BALANCE SHEET	31-Dec-18	31-Dec-19	31-Dec-20	31-Mar-21
Total Investments – net	48,021.4	51,278.0	67,889.7	69,432.7
Advances – net	53,592.3	61,356.1	65,635.4	69,148.4
Total Assets	122,764.6	129,577.4	158,996.4	171,479.4
Borrowings	39,780.6	36,114.5	56,197.1	64,608.8
Deposits & other accounts	65,225.1	71,881.9	78,425.6	78,140.0
Subordinated Debt	-	-	-	5,000.0
Share Capital	10,082.4	10,082.4	10,082.4	10,082.4
Tier-1 Equity	12,663.1	13,716.8	14,688.1	13,554.0
Net Worth	12,783.8	13,850.2	14,861.9	13,770.0
INCOME STATEMENT				
Net Mark-up Income	2,708.4	3,519.1	3,698.8	938.6
Provisions and write offs-net	68.4	502.0	353.6	1,040.2
Non-Markup Income	772.1	846.1	1,341.5	356.9
Operating Expenses	2,264.1	2,732.0	2,984.2	804.3
Profit/ (Loss) Before Tax	1,109.7	1,100.1	1,668.2	(549.3)
Profit/ (Loss) After Tax	682.7	686.5	1,011.7	(335.7)
RATIO ANALYSIS				
Market Share (Advances) (%)	0.7%	0.8%	0.8%	0.9%
Market Share (Deposits) (%)	0.5%	0.5%	0.4%	0.4%
Gross Infection (%)	4.3%	4.2%	3.9%	5.0%
Provisioning Coverage (%)	96.1%	100.5%	109.0%	111.1%
Net Infection (%)	0.3%	0.1%	0.1%	0.1%
Cost of deposits (%)	4.82%	7.58%	6.70%	4.99%
Net NPLs to Tier-1 Capital (%)	1.1%	0.4%	0.6%	0.5%
Capital Adequacy Ratio (C.A.R (%))	19.04%	17.98%	18.18%	20.45%
Markup Spreads (%)	2.41%	3.04%	2.55%	2.37%
Efficiency (%)	69.4%	62.9%	65.6%	67.6%
ROAA (%)	0.6%	0.5%	0.7%	-
ROAE (%)	5.4%	5.1%	7.0%	-
Liquid Assets to Deposits & Borrowings (%)	45.7%	39.1%	46.2%	51.1%

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				
	28-Jun-21	AA	A-1	Positive	Maintained
	23-Jun-20	AA	A-1	Stable	Reaffirmed
	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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Due Diligence Meetings Conducted	S.No	Name	Designation	Date	
	1	Ms. Samina Hamid	Chief Risk Officer	June 10, 2021	
	2	Mr. Rashid Jahangir	Chief Financial Officer	June 10, 2021	
	3	Mr. Ghufraan Ahmed	Group Head-CMBG & SME	June 10, 2021	