

RATING REPORT

Samba Bank Limited (SBL)

REPORT DATE:

June 30, 2022

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		Positive	
Outlook Date	30 th June, 2022		23 rd May 2022	

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%	
Dr. Shujaat Nadeem (Chairman Board) – 5.93%	

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
<p>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.</p> <p>Profile of Chairman Dr. Shujaat Nadeem Detailed profile given in Annexure - I</p> <p>Profile of CEO Mr. Shahid Sattar (Detailed profile given in Annexure – I)</p>	<p>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'21 (Dec'20: 0.4%). 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 the report date. SBL currently operates through its distribution network of 44 branches.</p> <p>Ratings incorporate sponsor profile of SBL</p> <p>The assigned rating of SBL are underpinned by strong profile of its new sponsor Saudi National Bank (SNB). SNB is the largest bank of KSA, having an asset base of more than USD 240b (SAR 914b) as at end-Dec 2021. In May'22, the SNB notified that it was terminating the process for the sale of SNB's equity stake in SBL. In recent communication to the Bank's management, SNB has communicated its intent to remain committed to SBL, including commitment to invest in the strategy of SBL. With the election of new nominee directors scheduled for Q3'22, future rebranding marketing strategy and business plan for growth shall be devised.</p> <p>Market positioning, in terms of assets and advances remained intact, while asset quality remains comparable to peers</p> <p>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. The asset quality indicators of the Bank were impacted by non-performance of a single client from the Oil & Gas sector, besides a few small-sized nonperformance by a counterpart in the Food & Grains industry. As a result, NPL's were up by Rs. 1.8b as of Mar'22 vis-a-vis Dec'20. The gross infection of the portfolio remains comparable to peers, while net infection is considered adequately low. Nevertheless, credit risk on the books is a concern, specifically in view of SBL's elevated ADR. Going forward, given the 400 bpts increase in benchmark rates, concerns of potential increase in NPLs are emerging. Given the increase in net-NPLs, the same constituted 3.3% of the tier-I equity as Mar'22. VIS will continue to closely monitor this metric on an ongoing basis.</p> <p>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.</p> <p>Given limited branch operations, SBL's ability to attract low cost funding is limited. As future strategic growth plan of the Bank remains hinged on the changes in the Board, growth in Bank's deposit base remained lackluster during the period under review. Nevertheless, the management's efforts towards improving the deposit base composition were effective, as can be noted from the CASA composition increasing from 47.8% as at Dec'20 to 55.9% by end-Mar'22. The cost of deposits of the Bank remained elevated for 2021, vis-à-vis similar rated peers. In addition, as growth has largely emanated from borrowings cost of funding is considered elevated too. As at Mar'22, the borrowings of SBL clocked in at Rs. 82.4b (Dec'21: 93.0b; Dec'20: Rs. 56.2b; Dec'19: Rs. 36.1b). In addition, the Bank has also issued a Term Finance Certificate of Rs. 5b in Mar'21, which is a sub-ordinated debt instrument. It is relevant to note that the borrowings are mostly used for investment in sovereign securities. The liquid asset coverage of deposits and borrowings stood at 36.0% as of Mar'22. We have reviewed the asset liquidity maturity profile of the Bank and did not see any material maturity mismatch as of Dec'21.</p> <p>Profitability indicators depict further room for improvement, when compared to the AA rated banks</p> <p>SBL's profitability indicators leave room for improvement when compared to the AA rated banks. The short term outlook on SBL's profitability is stressed mainly as spreads are likely to undergo contraction in the short term and normalize by Q3'22; this is mainly attributable to the upward trajectory in benchmark</p>

rates, which should translate in an uptick in spread. Nevertheless, given the lag in repricing of assets vis-à-vis liabilities, the spread is likely to contract in Q2'22 and normalize subsequently. Furthermore, the movement in benchmark rates is likely to impact SBL's profitability, given MTM losses on investment portfolio. However, it is unlikely that the entire impact would be passed through the profit & loss statement. Nevertheless, it will have impact on the Bank's capitalization.

Capitalization indicators are sound and compare favorably to peers

SBL's capital adequacy has declined slightly since our last review. Given the stressed profitability outlook and growth in risk weighted assets, the Bank's CAR is likely to recede further in the short term. As of Mar'22, the Bank's CAR was considered to be adequately high and superior to the peer median. Incorporating our outlook on CAR, SBL's CAR is projected to remain adequately high and in line with VIS benchmarks over the rating horizon.

Samba Bank Limited (SBL)

Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
BALANCE SHEET	31-Dec-19	31-Dec-20	31-Dec-21	31-Mar-22
Total Investments – net	51,278.0	67,889.7	93,975.4	88,378.1
Advances – net	61,356.1	65,635.4	81,177.2	80,829.2
Total Assets	129,577.4	158,996.4	201,139.5	193,757.9
Borrowings	36,114.5	56,197.1	93,019.2	82,383.2
Deposits & other accounts	71,881.9	78,425.6	79,267.3	82,126.1
Subordinated Debt	-	-	4,999.0	4,998.0
Share Capital	10,082.4	10,082.4	10,082.4	10,082.4
Tier-1 Equity	13,716.8	14,688.1	15,308.2	14,748.9
Net Worth	13,850.2	14,861.9	16,435.2	16,074.3
INCOME STATEMENT	2020	2021	Q1'21	Q1'22
Net Mark-up Income	3,698.8	4,306.1	938.6	1,086.0
Provisions and write offs-net	353.6	1,048.8	1,040.2	61.7
Non-Markup Income	1,341.5	1,471.0	356.9	332.8
Operating Expenses	2,984.2	3,378.6	804.3	941.7
Profit/ (Loss) Before Tax	1,668.2	1,304.1	(549.3)	405.3
Profit/ (Loss) After Tax	1,011.7	789.0	(335.7)	244.0
RATIO ANALYSIS	31-Dec-19	31-Dec-20	31-Dec-21	31-Mar-22
Market Share (Advances) (%)	0.8%	0.8%	0.8%	0.8%
Market Share (Deposits) (%)	0.5%	0.4%	0.4%	0.4%
Gross Infection (%)	4.2%	3.9%	5.3%	5.2%
Provisioning Coverage (%)	100.5%	109.0%	91.0%	93.3%
Net Infection (%)	0.1%	0.1%	0.7%	0.6%
Cost of deposits (%)	7.58%	6.70%	4.89%	6.06%
Net NPLs to Tier-1 Capital (%)	0.4%	0.6%	3.9%	3.3%
Capital Adequacy Ratio (C.A.R (%))	17.98%	18.18%	20.19%	18.95%
Markup Spreads (%)	3.04%	2.55%	2.41%	2.40%
Efficiency (%)	62.9%	65.6%	64.6%	67.4%
ROAA (%)	0.5%	0.7%	0.4%	0.5%*
ROAE (%)	5.1%	7.0%	5.0%	6.0%*
Liquid Assets to Deposits & Borrowings (%) **	41.5%	49.7%	34.3%	36.0%

*Annualized

**Adjusted for repurchase borrowings and securities placed as collateral

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				
	30-Jun-22	AA	A-1	Stable	Maintained
	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.				
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Due Diligence Meetings Conducted	S.No	Name	Designation	Date	
	1	Ms. Samina Hamid	Chief Risk Officer	June 3, 2022	
	2	Mr. Rashid Jahangir	Chief Financial Officer		