

## RATING REPORT

## Samba Bank Limited (SBL)

**REPORT DATE:**

June 26, 2023

**RATING ANALYSTS:**

Musaddeq Ahmed Khan

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	AA	A-1	AA	A-1
<b>Outlook</b>	Stable		Stable	
<b>Action</b>	<i>Reaffirmed</i>		<i>Maintained</i>	
<b>Outlook Date</b>	26 <sup>th</sup> June 2023		30 <sup>th</sup> June 2022	

## COMPANY INFORMATION

<b>Incorporated in 2008</b>	<b>External auditors:</b> KPMG Taseer Hadi and Co.
<b>Listed Public Limited Company</b>	<b>Chairman of the Board:</b> Mr. Mustafa Illyas
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Ahmad Tariq Azam
Saudi National Bank – 84.51%	

## APPLICABLE METHODOLOGY

VIS Financial Institution Methodology (June 2023)

<https://docs.vis.com.pk/docs/FinancialInstitution.pdf>

VIS Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## Samba Bank Limited (SBL)

## OVERVIEW OF THE INSTITUTION

## RATING POINTERS

Samba Bank Limited (a Subsidiary of 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. In 2021 the shares of Saudi Financial Group were acquired by of Saudi National Bank residing in Kingdom of Saudi Arabia (KSA), which is currently a shareholders of 84.51% in Samba Bank Limited.

**Profile of Chairman**

Dr. Mustafa Illyas  
Detailed profile given in Annexure - I

**Profile of CEO**

Mr. Ahmad Tariq Azam (Detailed profile given in Annexure - I)

Samba Bank Limited ('SBL' or 'the Bank') is a subsidiary of Saudi National Bank (Previously Samba Financial Group) of Kingdom of Saudi Arabia (KSA), which holds 84.51% shares of the Bank. SBL currently operates through its network of 47 branches.

**Banking Sector**

The economy is currently facing several challenges, including a decrease in foreign reserves, a devaluing currency, and high inflation levels. To combat rising inflation, caused by the commodity super cycle and effects of Ukraine war, the central bank has implemented stricter monetary policies, resulting in a significant increase in the policy rate. This has led to higher funding costs for banks and impacted borrowers' debt servicing ability. Consequently, banks are making adjustments by increasing provisions for potential loan losses and writing off non-performing loans. The economic slowdown will likely prompt stricter lending standards with banks continuing to remain heavily invested in sovereign exposures. Counterbalancing this, rising interest rates should widen bank margins, partially offsetting the decline in earnings, with lower business volumes, and still allowing for improved profitability. However, there is increased credit risk and market risk vulnerabilities, especially in the face of any potential interest rate or currency fluctuations, which could impact the NPL, P&L and ultimately capitalization levels of banks.

Looking ahead, the medium to long-term outlook for the fiscal account is challenging as the government is facing the challenge of expanding its revenue base. Public debt accumulation is growing, crowding out private sector credit. This trend also increases the risk of potential sovereign debt restructuring. Given banking sector balance sheets are highly skewed towards Government paper, this could lead to a constraining environment for liquidity and profitability, particularly for small and medium-sized banks.

**Key Rating Drivers****Key sponsor profile is a credit positive**

The assigned ratings of SBL are underpinned by the strong profile of its sponsor, Saudi National Bank (SNB). Following the merger between National Commercial Bank, KSA and Samba Financial Group, the merged entity has rebranded itself and emerged as the largest bank in KSA, having an asset base of SAR 945.5b as at end-Dec 2022. This led to a change on the Board of Directors of the Pakistan based subsidiary, in turn followed by significant changes in the leadership and organizational structure with the objective of improving performance and efficiency.

**Given limited branch operations, SBL's ability to attract low-cost funding is limited. However, ADR has receded, leaving sufficient liquidity reserves to meet stressed liquidity conditions, if any**

Given limited branch operations, SBL's ability to attract low cost funding is limited. The Bank has strategically set out to deleverage the balance sheet and thereby maintain adequate liquidity and a low risk profile. Resultantly the advances portfolio has been declining as evident from Gross Performing Advances of Rs. 72.2b as of Mar'23 (Dec'22: Rs. 75.3b; Dec'21: Rs. 80.8). Likewise, as a conscious strategy, the investment portfolio has also decreased from corresponding year, and stands at Rs. 80.3b (Dec'22: Rs. 76.9; Dec'21: Rs. 93.9b) as of Mar'23.

Meanwhile efforts on deposit mobilization has continued, with deposits increasing from Rs. 79.2b as of Dec'21 to Rs. 117.0b as of Mar'23, and resultantly the ADR has receded from 91% as of Dec'21 to 56% as of Mar'23. The liquid asset coverage of deposits and borrowings accordingly stood enhanced, indicating some buffers at 53.4% (Dec'22: 47.8%; Dec'21: 32.8%) as of Mar'23.

Growth in deposit base has come mainly from public sector /institutional deposits. On the other hand, borrowings have decreased to Rs.47.1bn as of Mar'23 from Rs. 93.0b in corresponding period last year.

This decline is mainly due to 52% reduction in repo borrowing as the Bank reduced its interbank and treasury transactions together with offloading its fixed rate investments to avoid steep losses in a rising interest rate scenario.

**While NPLs have risen over the period under review, the Bank maintains sizable provisions**

Asset quality indicators of the Bank were impacted by Non-Performing Loans (NPLs) which have accounted for Rs. 5.6b (Rs. 5.2b in loss category) as of Mar'23. Moreover at end Q1'23, the Bank holds provision of Rs. 6.1b (including General Provision). Net infection is low, particularly in the context of risk buffers held. Going forward, given 1,125bps increase in benchmark rates over last 6 quarters ending Jun'23, concerns of potential increase in NPLs are emerging on a sector-wide basis. VIS will continue to closely monitor this metric.

**Profitability indicators signifies further room for improvement, when compared to the AA rated banks.**

With loss taking in 2022, on account of sale of securities and more significantly due to provisioning, SBL has incurred loss after tax of Rs. 427.9m for the year. With the offloading of securities carrying high market risk, the potential for further mark to market losses stands lower. According to the management, higher spreads available to the Bank, will uplift core income and with continued expense control, is likely to post a positive bottom-line in the current year, with Q1'23 profit of Rs. 280mn.

**Capitalization indicators are sound and compare favorably to peers**

SBL's capital adequacy has declined since our last review. Profitability outlook has improved for the remaining year and given expectations of stagnant risk weighted assets, the Bank's CAR is likely to recover. Overall, CAR is indicative of strong capitalization and higher than the median of its peers. SBL's CAR is projected to remain in line with VIS benchmarks over the rating horizon.

**Annexure I – Profiles of Chairman & CEO**

<i>Name</i>	<b>Profile</b>
<i>Mr. Mustafa Ilyas - Chairman</i>	<p><b>Mr. Mustafa Ilyas</b> serves as an adviser to Saudi National Bank (“SNB”), Kingdom of Saudi Arabia since 2021, and also serves as Chairman of the Board of Directors of Samba Bank Limited Pakistan since October 27, 2022. Prior to this he was at PwC for over seventeen years, the majority of which focused exclusively on the banking sector. The early part of his career with PwC focused on providing external audit services to listed companies. He then specialized in due diligence assisting corporate and private equity investors on both buy and sell side.</p> <p>Mr. Mustafa Ilyas is a Chartered Accountant and member of the Institute of Chartered Accountants England &amp; Wales (UK). He holds a Master of Engineering from the Imperial College of Science, Technology and Medicine (London).</p>
<i>Mr. Ahmad Tariq Azam - CEO</i>	<p><b>Mr. Ahmad Tariq Azam</b> joined Samba Bank Ltd. in December 2013. He has almost 3 decades of diversified business and leadership experience in the banking and financial services sector with private banks, public sector banks, Non-Banking Financial Institutions, investment banks and leasing companies. Mr. Azam’s core experience lies in Wholesale Banking, Corporate Banking, Corporate Finance, Cash Management, Commercial Banking, SME Banking, Retail Banking, Remedial Assets Management, Real Estate Projects, and Administration.</p> <p>At Samba, Mr. Azam has held different senior management positions. He joined as Head of Institutional Remedial Management (IRM), as a member of the Executive Team and also led Administration and Real Estate Project Management. In 2015, Mr. Azam became Group Head of Commercial Banking, and in 2016, Group Head Commercial &amp; SME Banking. In 2020 he was appointed as Group Head Corporate &amp; Investment Banking (CIBG) &amp; Cash Management, and In March 2022, became Group Head, Wholesale Banking with a portfolio covering Commercial Banking, SME, CIBG &amp; Cash Management.</p> <p>Prior to joining Samba, Mr. Azam worked with UBL, as Head Commercial Centres, Central &amp; North. He was with NIB Bank from 2010 to 2013, working as Regional Head SME and next as Commercial and Head of Complex Card Unit. From 2009 to 2010, Mr. Azam was with Bank of Punjab as Head of Corporate &amp; Investment Banking, and was previously with Pak-China Investment Company as Head of Corporate Finance. Between 1998 and 2009, Mr. Azam worked with Bank Al Falah in different roles, with his last role as Area Head Branch Banking &amp; SME. Before joining Bank Al Falah, Mr. Azam worked in Ibrahim Leasing, Islamic Investment Bank and PILCORP. Mr. Azam’s mission in formulating and executing the Bank’s strategic direction included development of the business franchise through launch of Commercial &amp; SME Business, revenue growth, cost control, team development and enhanced customer experience.</p> <p>Mr. Azam holds a Master’s degree in Public Administration (MPA) from the University of Punjab, Lahore, and a Bachelor’s degree from the University of Punjab, Lahore He is also an alumnus of Cadet College Hassan Abdal &amp; Government College, Lahore. In the course of his career he has attended many work-shops, conferences and seminars, and represented Samba at national and regional forums.</p>

**Samba Bank Limited (SBL)**
**Appendix I**

<b>FINANCIAL SUMMARY</b>			
<i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>31-Dec-21</b>	<b>31-Dec-22</b>	<b>31-Mar-23</b>
Total Investments – net	93,975.4	76,904.1	80,323.3
Advances – net	81,177.2	74,454.6	71,704.6
Total Assets	201,139.5	179,074.3	195,880.2
Borrowings	93,019.2	45,826.3	47,104.9
Deposits & other accounts	79,267.3	105,243.8	116,969.6
Subordinated Debt	4,999.0	4,997.0	4,996.0
Share Capital	10,082.4	10,082.4	10,082.4
Tier-1 Equity	15,308.2	13,319.7	11,865.2
Net Worth	16,435.2	15,402.4	15,682.1
<b><u>INCOME STATEMENT</u></b>			
	<b>2021</b>	<b>2022</b>	<b>Q1'23</b>
Net Mark-up Income	4,306.1	4,733.8	1,557.3
Provisions and write offs-net	1,048.8	1,845.1	52.0
Non-Markup Income	1,471.0	244.1	100.0
Operating Expenses	3,378.6	4,046.3	1,090.6
Profit/ (Loss) Before Tax	1,304.1	(925.9)	502.2
Profit/ (Loss) After Tax	789.0	(427.9)	279.7
<b><u>RATIO ANALYSIS</u></b>			
	<b>31-Dec-21</b>	<b>31-Dec-22</b>	<b>31-Mar-23</b>
Market Share (Advances) (%)	0.8%	0.7%	0.7%
Market Share (Deposits) (%)	0.4%	0.5%	0.5%
Gross Infection (%)	5.3%	6.5%	7.1%
Provisioning Coverage (Specific) (%)	86.6%	93.3%	91.4%
Total Provisioning Coverage (%)	91.0%	115.5%	110.1%
Net Infection (%)	0.7%	0.5%	0.7%
Cost of deposits (%)	4.89%	8.26%	NA
Gross Advance to Deposit Ratio	91.1%	64.1%	56.0%
Net NPLs to Tier-1 Capital (%)	3.9%	2.4%	3.7%
Capital Adequacy Ratio (C.A.R (%))	20.19%	18.72%	16.74%
Markup Spreads (%)	2.41%	2.58%	NA
Efficiency (%)	64.6%	64.8%	52.8%
ROAA (%)	0.4%	-0.2%	0.6%*
ROAE (%)	5.0%	-2.7%	7.2%*
Liquid Assets to Deposits & Borrowings (%) *	32.8%	47.8%	53.4%

\*Annualized

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Samba Bank Limited (SBL)				
<b>Sector</b>	Commercial Bank				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	26-June-23	AA	A-1	Stable	Reaffirmed
	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	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>S.No</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Mr. Basit Hamanyun	Chief Financial Officer (Acting)	<b>05-May-2023</b>	
	2	Mr. Syed Ghazanfer Agha	Chief Compliance Officer		
	3	Mr. Farrukh Haider	Head of Treasury		