



The Pakistan Credit Rating Agency Limited

Rating Report

Samba Bank Limited | PPTFC

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Nov-2023	AA-	-	Stable	Maintain	-
19-May-2023	AA-	-	Stable	Maintain	-
20-May-2022	AA-	-	Stable	Maintain	-
21-May-2021	AA-	-	Stable	Initial	-
10-Dec-2020	AA-	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The rating of Samba Bank Limited (“SBL” or “the Bank”) is reinforced by the strong profile of the sponsoring group i.e., Saudi National Bank (SNB). The SNB is the largest commercial bank of KSA with an equity base of SAR 167bln as of Dec-22. As of 9MCY23, the CAR of the SBL stood at 19.8% (CY22: 18.7%) well above the minimum requirement prescribed in SBP banking regulations. The consistent improvement in CAR over the years has augmented the risk absorption capacity of the SBL and provides comfort to the currently assigned debt instrument rating. The Bank recorded net mark-up income at PKR 5.7bln (9MCY22: PKR 3.2bln) mainly attributed to the surge in the policy rate. During 9MCY23 the Bank optimized its ADR (Advances to Deposits ratio) at 54.0% (CY22: 70.7%). The management has prudently recognized all infectious exposure. Consequently, there was a consistent increase in the infection ratio (9MCY23: 9.0%; CY22: 6.5%). The bank’s investment book is majorly vested with government securities. During 9MCY23, the investment portfolio portrayed a sizeable decline (9MCY23: PKR 72.3bln, CY22: PKR 76.9bln) attributable to a change in strategy to offload securities. Also, the duration was deliberately decreased in order to minimize the risk. The sizeable improvement in the coverage of NPLs is considered positive. The equity of SBL stood at PKR 15.3bln as of 9MCY23. The SBL has been paid the 05th redemption of Tier-II TFC due on September 01, 2023.

The rating is dependent on the Bank's sustained risk profile along with improvement in performance parameters. Meanwhile, upholding asset quality, enhancing its share of deposits in the banking sector, adding diversity to the income stream, maintaining a cushion in CAR and a strong governance framework is critical.

Disclosure

Name of Rated Entity	Samba Bank Limited PPTFC
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Financial Institution Rating(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Debt Instrument Rating(Aug-23)
Related Research	Sector Study Commercial Bank(Jun-23)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504



Issuer Profile

Profile Samba Bank Limited ("Samba Bank" or the "Bank") is a banking company listed on Pakistan Stock Exchange. In 2007, Samba Financial Group (SFG) of the Kingdom of Saudi Arabia acquired 68.4% stake in Crescent Commercial Bank Limited (CCBL), CCBL was rebranded as Samba Bank Limited in 2008. The Bank is classified as a small to mid-sized bank with a market share of 0.6% in deposits. The Bank is mainly engaged in Corporate, Commercial, Treasury, Retail & Consumer banking activities. The Bank has a network of 47 branches as of Sep'23 (CY21: 44 branches) located in 15 major cities across the country.

Ownership The Bank is a subsidiary of Saudi National Bank which holds 84.51% of shares in the Bank. Saudi National Bank (SNB) is the largest financial group in Saudi Arabia in the banking sector. It is owned by the Saudi Government with a global presence operating in eight countries. SNB has a very strong presence in the diverse sectors. The subsidiaries of Saudi National Bank are SNB Capital Company (SNBC), NCB Capital Dubai Incorporation, NCB Capital Real Estate Investment Company (REIC), SNB Markets Limited, and Al-Ahli Insurance Services Marketing Company. National Commercial Bank merged with Samba Financial Group and the merged entity formed is Saudi National Bank. Over past forty years, Samba Bank offered wide range of products and services to its customers. Samba Bank is engaged in a diverse set of activities with its liability and assets product bouquet designed to attract a varied customer base including corporates, enterprises and individual customers. VIS maintained the credit rating of the Bank at AA rating. The Bank draws its strength from its strong equity base, capital ratios and support from the Bank's parent entity, the Saudi National Bank. The equity of SNB stood at SAR 167bln at the end CY22.

Governance The Bank's Board structure primarily revolves around their group. The board comprises eight members, including the Chairman and CEO. The presence of three independent directors portray a strong governance structure. The Chairman of the Board, Mr. Mustafa Ilyas, serves as an adviser to Saudi National Bank ("SNB") and also serves as Chairman of the Board of Directors of Samba Bank Limited Pakistan. The Bank has a process in place to enhance the overall effectiveness of the BOD, its committees, and individual directors on annual basis. To ensure effective governance, the Board has formed four committees, namely, (i) Audit Committee, and (ii) Risk Committee, (iii) Nomination and Remuneration Committee and (iv) IT Committee. To ensure operational efficiency, the Audit Committee ensures that the accounts fairly represent the financial position of the Bank. The Bank's external auditors, M/s KPMG Taseer Hadi & CO. Chartered Accountants, have expressed an unqualified opinion on the Bank's financial statements for the year ended Dec'22. The interim audit review has also been conducted and auditors issued an unqualified opinion on the SBL half-year financial statements June-2023.

Management The bank operates through a well-defined organizational structure headed by the President and CEO, Mr. Ahmed Tariq Azam. The organization is structured along functional lines with the various department heads, along with the management committees, reporting directly to the President and deputy CEO. The Company's CEO, Mr. Ahmed Tariq Azam 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. The Bank have a highly experienced senior management team capable of ensuring that the bank remains a top-performing financial institution in Pakistan. The bank has various committees in place at the management level to oversee its day-to-day operational matters and take decisions to implement the strategy outlined by the board. These include (i) Executive Team, (ii) Investment Committee, (iii) Asset and Liability Committee (iv) Management Credit Committee, (v) Real Estate Committee (vi) Remedial Assets Committee (vii) IT Steering Committee. The Board has formed special committees named Integrated Risk Management Committee (IRMC), Management Credit Committee (MCC), and Country Risk and Compliance Committee (CRCC) to manage the credit, market, operational and other risks.

Business Risk The country's economy has gone through several varied phases in the last few years. Looking ahead, the macroeconomic landscape is fraught with numerous challenges, including political instability, elevated interest rates, demand tightening, sizable rupee depreciation, and heightened inflation, all of which reverberate across all sectors of the economy. Pakistan posted a nominal GDP growth rate of 27.1% in FY23 and stood at PKR 84,657.9bln (FY22: PKR 66,623.6bln). The banking sector continues to flourish with high profitability. Total banking assets posted growth of 18.5% YoY whilst investments surged by 25% YoY to PKR 18.0trn (CY21: PKR 14.4trn). Gross Advances of the sector recorded growth (16%) to stand at PKR 12.6trn (CY21: PKR 10.9trn). Non-performing loans witnessed an increase to PKR 924bln. The Capital Adequacy Ratio remained intact at 17% (regulatory requirement of 11.5%). However, declined in Mar-23 to 15%. During CY22, banking sector deposits enhanced to PKR 23.4trn. Hence, ADR rationalized to 50% (CY21: 47%). CASA average, for the industry, stood at 74%. Net profitability of the sector was recorded at PKR 331bln (CY21: PKR 267bln); up 23% YoY. However, the growth of the equity base of the sector recorded an uptick of 7% YoY attributable to a handsome dividend payout. During 9MCY23, the Bank's customer deposit base recorded a healthy increase to stand at PKR 119.6bln (CY22: PKR 95.9bln). The net advances during 9MCY23 clocked at PKR 67.8bln (CY22: PKR 74.5bln). The Bank's profit after tax has increased to PKR 1,060.3mln during 9MCY23 (9MCY22: PKR 369.4mln) due to an increase in net mark-up income and foreign exchange income.

Financial Risk The gross performing advances decreased by 9.3% clocking in at PKR 68.2bln during 9MCY23 (CY22: PKR 75.2bln). Subsequently, the ADR portrayed a consistent decline to 54.0% as of 9MCY23 (CY22: 70.7%). The infection ratio stood at 9.0% as of 9MCY23 (CY22: 6.5%). During 9MCY23, the gross performing advances decreased to PKR 68.2bln (CY22: PKR 75.3bln) due to a decrease in loans, cash credits, running finances etc. During 9MCY23, the Bank's investment portfolio illustrated a sizeable decrease on a YoY basis recorded at PKR 72.3bln (CY22: PKR 76.9bln). The Bank's exposure in Federal Government Securities has displayed a decline (9MCY23: PKR 70.4bln; CY22: PKR 74.8bln; CY21: PKR 91.4bln) attributable to a change in the strategy and offloading of investments in government and equity securities. CA and SA proportions stood at 24.1% in 9MCY23 (CY22: 22.4%); and 22.3% in 9MCY23 (CY22: PKR 28.1%) respectively.

Instrument Rating Considerations

About The Instrument Samba Bank issued PPTFC-TIER II in Mar-21. The amount of the instrument is PKR 5,000mln and priced at 6MK+135bps p.a. payable semiannually. The tenor of this instrument is 10 years, callable from Mar-26 or thereafter with prior approval of SBP. The TFC Issue is subordinated to the payment of principal and profit to all other indebtedness of the Bank, including deposits, and is not redeemable before maturity without prior approval of the SBP. The SBL has paid the 05th redemption of Tier-II TFC (PKR 540.217mln) due on September 01, 2023.

Relative Seniority/Subordination Of Instrument The TFC Issue is subordinated as to payment of principal and profit to all other indebtedness of the bank, including deposits and is not redeemable before maturity without prior approval of the SBP. Moreover, the investors shall have no right to accelerate the repayment of future scheduled payments (interest or principal) except in bankruptcy and/or liquidation. The lock-in clause states that neither profit nor principal may be paid (even at maturity) if such payments would result in a shortfall in the Bank's MCR or CAR or increase any existing shortfall in MCR or CAR. The TFCs is also subject to loss absorbency clause as stipulated in terms of the Basel III Guidelines wherein upon the occurrence of a Point of Non-Viability ("PONV") event as defined in the Basel III Guidelines, the SBP may at its option, fully and permanently convert the TFCs into common shares of the Bank and/or have them immediately written off (either partially or in full).

Credit Enhancement The instrument is unsecured.



PKR mln

Samba Bank Limited
Public Listed Limited

Sep-23	Dec-22	Dec-21	Dec-20
9M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	68,229	75,268	80,773	65,878
2 Investments	72,304	76,904	93,975	67,890
3 Other Earning Assets	11,119	8,378	6,979	11,256
4 Non-Earning Assets	28,461	19,338	19,008	14,216
5 Non-Performing Finances-net	(411)	(813)	404	(242)
Total Assets	179,702	179,074	201,140	158,996
6 Deposits	125,502	105,244	79,267	78,426
7 Borrowings	25,867	50,823	98,018	56,197
8 Other Liabilities (Non-Interest Bearing)	13,049	8,354	7,954	9,057
Total Liabilities	164,418	164,421	185,239	143,679
Equity	15,284	14,653	15,900	15,317

B INCOME STATEMENT

1 Mark Up Earned	21,201	22,545	13,983	13,575
2 Mark Up Expensed	(15,475)	(17,811)	(9,676)	(9,876)
3 Non Mark Up Income	847	244	1,471	1,341
Total Income	6,573	4,978	5,777	5,040
4 Non-Mark Up Expenses	(3,459)	(4,059)	(3,424)	(3,018)
5 Provisions/Write offs/Reversals	(1,261)	(1,845)	(1,049)	(354)
Pre-Tax Profit	1,852	(926)	1,304	1,668
6 Taxes	(792)	498	(515)	(657)
Profit After Tax	1,060	(428)	789	1,012

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	4.3%	2.5%	2.4%	2.6%
Non-Mark Up Expenses / Total Income	52.6%	81.5%	59.3%	59.9%
ROE	9.4%	-2.8%	5.1%	6.9%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	8.5%	8.2%	7.9%	9.6%
Capital Adequacy Ratio	19.8%	18.7%	20.2%	18.2%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	52.1%	41.6%	32.0%	43.7%
(Advances + Net Non-Performing Advances) / Deposits	54.0%	70.7%	102.4%	83.7%
CA Deposits / Deposits	24.1%	22.4%	27.3%	21.9%
SA Deposits / Deposits	22.3%	28.1%	24.2%	24.8%

4 Credit Risk

Non-Performing Advances / Gross Advances	9.0%	6.5%	5.3%	3.9%
Non-Performing Finances-net / Equity	-2.7%	-5.5%	2.5%	-1.6%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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