



The Pakistan Credit Rating Agency Limited

Rating Report

Samba Bank Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2024	AA	A1	Stable	Maintain	Yes
06-Jul-2023	AA	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Samba Bank Limited (or "Samba") is owned by The Saudi National Bank (SNB). SNB is the largest financial institution in Saudi Arabia while having a strong lending position in the region. SNB was formed after the merger of two big banks; the National Commercial Bank and Samba Financial Group. The Saudi National Bank, as the majority shareholder of Samba Bank Limited ("Samba Pakistan"), has notified that they have received a non-binding offer from Bank Alfalah Limited relating to the proposed divestment of SNB's 100% stake in Samba Bank Limited. SNB has agreed to evaluate the non-binding offer and will, subject to compliance with the requirements under applicable laws and regulations. Currently, the Bank's current market share in deposits is relatively small. It has achieved a 9% growth in its deposit base, reaching PKR 114.7bln (CY22: PKR 105.2bln). The deposit base reflects a high concentration of Term-deposits. The Bank needs to enhance its outreach to attract a low-cost deposit base. The ADR of the Bank stood at 64% (CY22: 70.7%). The management has prudently recognized all infectious exposure. Consequently, there was an increase in the infection ratio (CY23: 9.08%; CY22: 6.53%). The bank's investment book is majorly vested with government securities. The coverage of NPLs is considered good, however, declined compared to the previous year (CY23: 99%; CY22: 115%). The bank's risk absorption capacity is high: CAR is reported at 21.31% (CY22: 18.7%). The Bank is continuously right-sizing its earning assets mix vis-a-vis credit risk. The Bank has strategically reduced its balance sheet size which primarily represents a reduction in investments, loans and advances. During the period, the net markup income witnessed an enormous increase of 71% compared to last year. This increase is mainly in line with the hike in policy rates. The Bank recorded a Net profit of PKR 1,235mln (CY22: Net loss of PKR 428mln). While the competitive landscape has been increasingly intensified, the Bank is focused on enhancing its digital footprint so that customers are provided with all "digital and online banking services".

The placement of the Rating Watch is attributed to the recent disclosure of SNB to divest its shareholding in SAMBA Bank and the initiation of the due diligence process consequently. PACRA will continue to monitor ongoing developments in this matter.

Ratings are dependent on the bank's ability to sustain and improve 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 are critical.

Disclosure

Name of Rated Entity	Samba Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Financial Institution Rating(Oct-23),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study Commercial Banks(Jun-24)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Profile

Structure 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.

Background In 2021, Samba Financial Group (SFG) merged into the National Commercial Bank of Saudi Arabia. The merged entity was later named Saudi National Bank. SNB emerged as a banking champion of KSA (By virtue of this merger, SBL’s shares held by SFG were transferred to SNB by operation of law).

Operations The bank is operating as a scheduled bank. The bank’s registered office is located on the 1st Floor, 19 - Saleem Plaza, Blue Area, Jinnah Avenue, Islamabad. Currently, the bank is operating with 47 branches (CY22: 47 branches) located in 15 major cities across the country

Ownership

Ownership Structure The majority of the bank’s stake (84.51%) is held by Saudi National Bank (SNB) and the general public (9.91%). While the remaining stake vests with mutual funds (0.16%), public sector companies and corporations (0.26%), and others (5.16%).

Stability As the major shareholding of the Samba bank remains with a very strong sponsor (Saudi National Bank), the bank’s shareholding pattern is expected to remain stable in the foreseeable future.

Business Acumen Saudi National Bank 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.

Financial Strength 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

Governance

Board Structure The board comprises nine members, including the Chairman and President & CEO. The presence of three independent directors portrays a strong governance structure.

Members’ Profile The profile of the members is considered very strong where the Chairman, Mr. Mustafa Ilyas serves as an advisor to the Saudi National Bank (SNB) and also serves as the Chairman of the Board of Directors of Samba Bank Limited Pakistan

Board Effectiveness The board monitors the key functional and risk areas through its four committees; i) Audit Committee, ii) Nomination & Remuneration Committee, iii) Risk Committee, and iv) IT Committee.

Financial Transparency The bank has an internal audit function in place which reports directly to the Board Audit Committee. M/s. KPMG Taseer Hadi and Co. Chartered Accountants are the external auditors of the bank. They have expressed an unqualified opinion on the bank’s financial statements for the year ended December 31, 2023.

Management

Organizational Structure The bank operates through a well-defined organizational structure headed by the President & CEO, Mr. Ahmad Tariq Azam. The organization is structured along functional lines with the various department heads, along with the management committees, reporting directly to the President & deputy CEO.

Management Team The President & CEO, Mr. Ahmad Tariq Azam has been associated with Samba Bank since December 2013. He brings with him an extensive experience of three decades in the banking sector, Non-Banking Financial Institutions, investment banks, and leasing companies. The Deputy CEO, Mr. Rashid Jahangir, and CFO, Mr. Basit Hamanyun are highly qualified and experienced professionals.

Effectiveness 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.

MIS Samba Bank Limited has deployed Temenos T24 as its centralized core banking system. It includes all the basic modules including branch banking, trade finance, corporate loans, and anti-money laundering. The frequency of the reports is daily, monthly, and quarterly. A presentation is given to the Board on a quarterly basis

Risk Management Framework 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

Industry Dynamics CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan’s banking sector’s total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 21.6% (end-Dec22: 16.9%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

Relative Position The bank’s relative position in the banking industry in accordance with the deposit system share stands at 0.4% (end-Dec22: 0.6%).

Revenues In CY23, the bank’s financial performance was marked by notable growth in markup-related metrics. The markup earned increased significantly by 27.3% YoY, reaching PKR 28.7bln, up from PKR 22.5bln in CY22. Markup expenses also rose, totaling PKR 20.6bln compared to PKR 17.8bln in CY22. Despite the rise in expenses, the net markup income increased to PKR 8.1bln from PKR 4.7bln in CY22.

Performance The non-markup income recorded a increase on a YoY basis to stand at PKR 1.2bln (CY22: PKR 0.244bln). The bank booked a total provision of PKR 2.2bln during CY23 (CY22: PKR 1.8bln). The Bank’s profit after tax has increased to PKR 1.2bln during CY23 (CY22: Loss of 0.428bln).

Sustainability The bank is continuously right-sizing its earning assets mix vis-à-vis credit risk.

Financial Risk

Credit Risk In CY23, the bank’s gross advances witness a marginal increase to PKR 80.7bln from PKR 80.5bln in CY22, This minimal growth led to a decline in the Advances to Deposit Ratio (ADR), which dropped to 64% from 70.7% in CY22. Additionally, the infection ratio rose to 9.1% from 6.5% in CY22, reflecting a deterioration in asset quality and an increase in non-performing loans. This trend highlights the need for improved credit risk management and loan portfolio quality.

Market Risk During CY23, the Bank’s investment portfolio illustrated a sizeable decrease on a YoY basis recorded at PKR 70.4bln (CY22: PKR 76.9bln). The Bank’s exposure in Federal Government Securities has displayed a decline (CY23: PKR 67.7bln; CY22: PKR 74.8bln; CY21: PKR 91.4bln) attributable to a change in the strategy and offloading of investments in government and equity securities.

Liquidity And Funding CA and SA proportions of the Bank stood at 22.2% in CY23 (CY22: 22.4%); and 21.8% in CY23 (CY22: PKR 28.1%) respectively. Hence, the bank’s CASA was reported at 44%. At end-Dec23, the bank’s deposit base further increased to PKR 114.7bln (CY22: PKR 105.2bln).

Capitalization At end-Dec23, the bank’s equity base was recorded at PKR 16.3bln (end-Dec22: PKR 14.6bln). The bank reported CAR of 21.31% (endDec22: 18.7%).



Samba Bank Limited Public Listed Limited	PKR mln			PKR mln
	Dec-23	Dec-22	Dec-21	Dec-20
	12M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	73,377	75,268	80,773	65,878
2 Investments	70,412	76,904	93,975	67,890
3 Other Earning Assets	9,231	8,378	6,979	11,256
4 Non-Earning Assets	25,655	19,338	19,008	14,216
5 Non-Performing Finances-net	59	(813)	404	(242)
Total Assets	178,734	179,074	201,140	158,996
6 Deposits	114,732	105,244	79,267	78,426
7 Borrowings	35,977	50,823	98,018	56,197
8 Other Liabilities (Non-Interest Bearing)	11,662	8,354	7,954	9,057
Total Liabilities	162,371	164,421	185,239	143,679
Equity	16,363	14,653	15,900	15,317

B INCOME STATEMENT

1 Mark Up Earned	28,705	22,545	13,983	13,575
2 Mark Up Expensed	(20,604)	(17,811)	(9,676)	(9,876)
3 Non Mark Up Income	1,208	244	1,471	1,341
Total Income	9,310	4,978	5,777	5,040
4 Non-Mark Up Expenses	(4,830)	(4,059)	(3,424)	(3,018)
5 Provisions/Write offs/Reversals	(2,286)	(1,845)	(1,049)	(354)
Pre-Tax Profit	2,193	(926)	1,304	1,668
6 Taxes	(958)	498	(515)	(657)
Profit After Tax	1,235	(428)	789	1,012

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	4.5%	2.5%	2.4%	2.6%
Non-Mark Up Expenses / Total Income	51.9%	81.5%	59.3%	59.9%
ROE	8.0%	-2.8%	5.1%	6.9%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	9.2%	8.2%	7.9%	9.6%
Capital Adequacy Ratio	21.3%	18.7%	20.2%	18.2%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	46.8%	41.6%	32.0%	43.7%
(Advances + Net Non-Performing Advances) / Deposits	64.0%	70.7%	102.4%	83.7%
CA Deposits / Deposits	22.2%	22.4%	27.3%	21.9%
SA Deposits / Deposits	21.8%	28.1%	24.2%	24.8%

4 Credit Risk

Non-Performing Advances / Gross Advances	9.1%	6.5%	5.3%	3.9%
Non-Performing Finances-net / Equity	0.4%	-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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Rating Team Statements

(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

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- 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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (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)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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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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