

ABN AMRO BANK (PAKISTAN) LIMITED (AABPL)

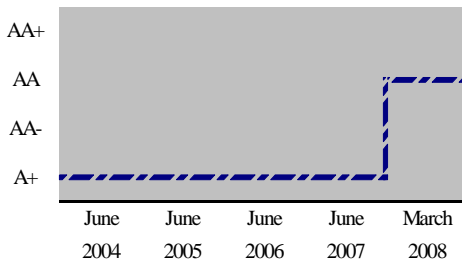
RATINGS (APRIL 2008)

ABN AMRO BANK (PAKISTAN) LIMITED

(Formerly Prime Commercial Bank Limited)

	NEW	PREVIOUS
ENTITY		
Long Term	AA	A+
Short Term	A1+	A1
TFCs		
Unsecured, Subordinated (PKR 800mln)	AA-	A
Outlook	–	Positive

HISTORY – LT ENTITY RATING



FINANCIAL DATA

PKR (mln)

	31-Dec-07	31-Dec-06
Total Assets	107,536	123,773
Equity	5,066	8,612
Net Income	(1,565)	2,394
Equity / Total Assets %	4.7	6.9
CAR%	8.35	12.45

ANALYSTS

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TFC ISSUE

- AABPL issued an unsecured subordinated TFC in February 2005 for a tenor of 8 years carrying mark-up at a floating rate of latest 6-month KIBOR plus 1.9%, payable semi-annually. Principal redemption will be in four equal annual installments commencing from Feb-10. The TFC, with its relatively longer tenor, was issued to provide added support to the bank's CAR.

RATING RATIONALE AND KEY DRIVERS

- The ratings of AABPL reflect its strengthened position in the local banking industry following the amalgamation of ABN AMRO Pakistan Branches with and into Prime Commercial Bank Limited (PCBL). Meanwhile, the very strong profile of the new parent – Royal Bank of Scotland Group (RBSG) – remains a key rating factor. While aiming to expedite the ongoing consolidation process, the management targets to leverage the expanded outreach and presence to make further inroads into the target markets. However, the extent to which the management would be successful in capitalizing on identified potential and RBSG's steadfastness in this regard remain to be seen.
- The ratings are dependent on the bank's ability to timely execute its business strategy while effectively managing associated risks. Meanwhile, continued patronage and support from the parent bank would remain critical for the ratings.

ASSESSMENT

- Year 2007 brought about significant changes both in the local profile and ownership structure of the bank. In Pakistan, ABN AMRO Bank N.V. (AAB) acquired PCBL in line with its strategy to expand its local operations as well as to diversify its advances portfolio into fast growing SME segment because of the latter's strength and established client base in this area of business. Meanwhile, AAB itself fell prey to acquisition, which got completed in the last quarter of 2007. The bank was acquired by a consortium comprising, The Royal Bank of Scotland Group Plc (RBSG) of Scotland, Banco Santander Central Hispano (Santander) of Spain, and Fortis N.V. (Fortis) of The Netherlands (jointly called the consortium). According to the acquisition plan of the consortium, RBSG, in addition to some other geographical operations of the bank, mainly took over the Asian business, in turn, becoming the new owner of AABPL.
- While initially, a degree of uncertainty existed as to the RBSG's strategic plans regarding operations in Pakistan, it resolved subsequent to unveiling of its plans as to businesses/geographical operations, which RBSG intends to retain. As a consequence, AABPL is being renamed to Royal Bank of Scotland Limited and the operations would be re-branded to align it with RBSG model. Meanwhile, due to AABPL management's involvement in the merger process, the overall performance of the bank was impacted during the year. Moreover, mainly because of higher provisioning, AABPL incurred a loss during 2007. Meanwhile, in line with ongoing consolidation, total combined assets declined by 13% on account of rationalization of certain investments and advances portfolio.
- Going forward, the bank is targeting an aggressive expansion in its overall operations. For deposit mobilization, the bank intends to capitalize on its expanded branch network, with major emphasis to be placed on low-cost current and saving deposits to rationalize its overall cost structure. The bank aims to further strengthen its foothold in corporate and consumer segments, while SME would be the key focus area to achieve targeted growth in advances, in turn, the revenues. At the same time, the association with RBSG would enable the bank to offer a wide range of products to a large client base, while benefiting from the parent's global presence, which is considered to be an inherent advantage of multinational bank mainly in trade related transactions. Nevertheless, given that RBSG is still in the process of acquiring respective operations of AAB globally, the designing and onward implementation of focused strategy related to Pakistan operations would take some time.
- During 2007, NPLs increased significantly, mainly originating from advances portfolio of PCBL and the consumer loan book of AAB. However, the bank has made a provision of more than 88% against total NPLs, thereby restraining its impact on future profitability of the bank. Going forward, with planned implementation of robust risk management systems to be provided by the parent and overall strengthening of the recovery processes, the bank is likely to arrest the increasing trend in NPLs, while, at the same time, improving its asset quality. In the meantime, the bank would continue to refine its MIS and IT systems to improve efficiency of its overall operations.
- The bank's capital adequacy ratio is just around the statutory requirement. However, in the near term, the bank is planning to raise tier-II capital to fund its growth and to strengthen its overall capital structure. Meanwhile, the bank's success in achieving growth targets, in turn, attaining desired performance level would help in improving its equity base.

PROFILE

- During 2007, subsequent to the acquisition of PCBL by AAB in the first quarter of the year, Pakistan branches of AAB were merged with and into PCBL with effect from September 01, 2007. Thereafter, name of the bank was changed to ABN AMRO Bank (Pakistan) Limited. AAB has above 99% holding in AABPL. AABPL has a network of more than 80 branches in 24 cities of the country.
- RBSG, being one of the largest banks in the world, has a consolidated asset base of more than US\$ 3,800bln at end-07 including US\$ 1,550bln, which relates to AAB. The bank, through its over 4,000 branches in above 50 countries worldwide, is providing a wide range of services covering retail and corporate banking, consumer finance, insurance, and wealth management services. RBSG has a long-term rating of 'AA-' from Standard & Poors.
- Currently AABPL's BoD comprises seven members out of which five hold senior management positions in AAB's worldwide operations and two are independent directors. The Chairman, Mr. Muhammad Aurangzeb, is currently serving as Global Head Commercial Client Segment ABN AMRO N.V. at Head Office, Amsterdam. Recently, Mr. Shahzad Naqvi is appointed as CEO of AABPL. Mr. Naqvi has extensive experience with renowned local and multinational financial sector entities. While expediting the integration process would be main priority, he would be responsible for re-branding ABN AMRO to RBS in Pakistan.