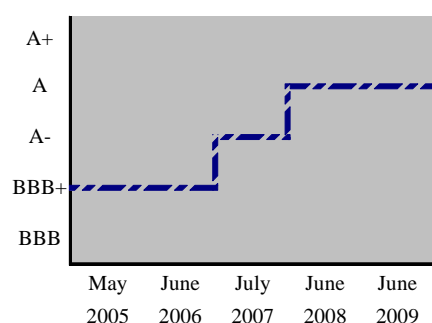


RATINGS (JUNE 2009)
KASB BANK LIMITED(KBL)
RATINGS

	New	Previous
Entity		
Long Term	A	A
Short Term	A1	A1
Outlook	Negative	-

LT ENTITY RATING – HISTORY

FINANCIAL DATA
(Amounts in PKR mln)

	31-Mar 09	31-Dec 08	31-Dec 07
Total Assets	59,802	51,799	40,891
Equity	8,645	8,813	4,172
Net Income (Loss)	(173)	(973)	198
ROA (%)	(1.2)*	(2.1)	0.6
ROE (%)	(8.0)*	(15.0)	6.2
Equity / Total Assets (%)	14.5	17.0	10.2
SBP CAR(%)	n.a	9.02	12.3

^ Based on un-audited results for 3 months ended Mar31, 09
** ROE and ROA are simple annualized*
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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect KBL's ability to withstand the challenges emerging in the operating environment, though it is increasingly coming under pressure. The ratings recognize the bank's quality management team, improving systems and controls, and expanding outreach. Cognizant of the bank's inherent limitations – moderate size, emergent network, and high funding costs – the management is in the process of developing a workable strategy in view of changing business dynamics while actively focusing on preserving its asset quality.
- The ratings have been assigned a negative outlook highlighting the possible deterioration in the bank's risk absorption capacity due to infection in its loan book. Moreover, the sizeable investment portfolio, inherited on merger is non-earning, whereby the timely completion of ongoing restructuring activity at group level is important to free up bank's resources and focus on core business operations. At the same time, success in building up the bank's franchise and controlling respective costs so as to overcome constraints and translate balance sheet consolidation into higher profitability remains to be seen.

ASSESSMENT

- KBL underwent a major merger activity with KASB Capital Limited (KCL) – a group company with expertise in investment banking and private equity deals – and Network Leasing Corporation in 2008, accumulating additional assets of PKR 4.8 bln for the bank. This merger was primarily driven by increasingly challenging operating environment and higher regulatory capital requirements. Given the current economic environment and relatively gestation phase of most of acquired investments, the earning ability is minimal.
- The loan book of KBL witnessed significant growth in 2008, mainly on account of increase in lending to wholesale and retail trade sector. The segment wise composition of the loan portfolio remained largely the same (corporate sector: 81%; SME: 10%; Consumer: 6%). While the concentration in top twenty exposures, mainly corporates, remained high (42% of the loan book), it is primarily dominated by more vulnerable sectors interalia, textile and construction.
- Lately, asset quality has emerged as the key issue for the whole banking sector, particularly for medium to small banks. KBL has witnessed significant deterioration in its asset quality (Non Performing Loans (NPL) as percentage of Gross Finances: 18% at end-Dec08; 4% at-end07). Majority of impaired loan book is constituted by textile, real estate and trading related businesses, which were most hit during recent economic crises. Meanwhile, sizeable amount of watch list accounts, if turned bad, may further drag the risk absorption capacity of the bank.
- In the medium to short term, the management of the bank is targeting minimal growth in advances. Major focus of the bank would remain on a) recovery of infected loans, and b) low-cost deposit mobilization. The bank has actively started its recovery efforts and has regularized over PKR550million of classified portfolio at-end Mar09.
- KBL's core performance is dragged down by its weak spreads, attributable to high cost of deposits. In this regard, the management, while improving the quality of service, intends to fully leverage its lately expanded geographically diversified network, to mobilize fresh deposits and retain existing ones at low cost.
- Risk management framework of KBL follows an enterprise-level approach underpinned by centralization of operations and sophisticated IT solutions. The bank is using Misys Equation as its core software, which is completely implemented in all the branches and the head office. Risk rating of the entire Wholesale Banking portfolio is complete.
- KBL was impacted by the liquidity crunch experienced in the financial sector in 4Q08. Its deposit base reduced to PKR35bln in Dec08 from PKR 47bn in Sep08. As a result it faced difficulties managing its liquidity (ADR at end-08: 92%). However, the bank has successfully increased the deposit base to PKR 43bln at-end Mar09 and its ADR now stands at 74%. Deposit concentration is moderate, as top 20 depositors constitute 24% of total deposits. Liquidity has improved as reflected by Liquid Assets to Funding ratio (25.5% at-end Mar09; 11.8% at-end Dec08).
- The bank's capital has increased following the merger. However, this has not benefited the CAR. The sponsoring group is working on establishing financial holding company structure, wherein the bank would spin off strategic investments (asset management company, brokerage house, Modaraba management, and non-financial corporates) to the holding company, KASB Finance Limited. This would also free up certain capital that would support CAR. Meanwhile, the bank is planning to issue a subordinated TFC to strengthen its CAR, while supporting the liquidity. At the same time, the net NPL to Equity stands at 32%, reflecting potential drag on KBL's risk absorption capacity.

PROFILE

- KBL, incorporated in October 1994 and listed on all three stock exchanges, was acquired by KASB group in October 2002. The bank's seven member Board of Directors (BOD) has diverse experience and background and is involved in the development of the bank's strategy and monitors its execution. The chief executive, Mr. Muneer Kamal, is an experienced banker with a distinguished profile. A core team of experienced professionals assists him. The bank is operating with a branch network of 73 (CY07: 35).