

## KASB BANK LIMITED (KBL)

### RATINGS (JUNE 2006)

#### KASB BANK LIMITED

#### RATINGS

	New	Previous
<b>Entity</b>		
Long Term	BBB+	BBB+
Short Term	A2	A2

#### FINANCIAL DATA

(Amounts in PKR mln)

	31-Dec-05	31-Dec-04
Total Assets	19,103.0	15,853.3
Equity	1,746.7	1,712.4
Net Income/(Loss)	(273.0)	98.1
ROA (%)	n.m.	0.79
ROE (%)	n.m.	6.70
Equity / Total Assets (%)	9.14	10.80
SBP CAR (%)	7.76	11.80

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#### RATING RATIONALE ASSESSMENT

- The ratings reflect the bank's relatively subdued position in an increasingly competitive banking environment, mainly an outcome of its small size and limited franchise value. At the same time, the ratings recognize the strategy of the new management that envisions a broad-based aggressive expansion in the bank's asset portfolio, but with focused products for different segments – corporate, SMEs and consumer – while capitalizing on the bank's recently extended outreach. Meanwhile, the management is working in a structured manner to strengthen human and infrastructure resources to achieve the planned business growth. Nevertheless, with restricted internal generation, the bank would remain dependent on its sponsors' support for meeting increasing capital requirements that has been demonstrated recently by fresh equity injection to maintain the bank's capital structure.
- During 2005, the bank's performance from core operations, despite a modest growth in earning assets and increased contribution of fee-based avenues, deteriorated. This was mainly on account of the bank's inability to mobilize deposits at competitive rates, putting pressure on spreads, low productivity of the branch network and a higher incidence of personnel cost. Moreover, substantial provisioning mainly against fresh infection and partially due to change in prudential regulations adversely impacted the performance, resulting in net loss for the period. The bank's core performance, with continued pressure on spreads and limited volume expansion, did not register much improvement during 1Q 06. The reported profitability was primarily a function of recoveries against certain NPLs, resulting in reversal of provisions.
- The new senior management team, which took charge of affairs towards the end of the previous year, is cognizant of the inherent limitations of the bank and is designing its strategy accordingly. The bank is investing heavily in human and technological infrastructure that, currently, is taking a big toll on its profitability. The management, therefore, intends to expand the bank's loan book at a relatively high rate to absorb the impact of these costs. To achieve credit expansion, the management intends to target all spheres of borrowers. Within corporate and SME segments, the bank is focusing on working capital, mainly trade-related, financing. The management plans to tap consumer segment in a more focused manner by introducing new products – *Education Assan* – while adding innovative features to existing products – auto and home loans. It is also considering exposure to unsecured consumer loans, mainly credit cards. To fund the credit growth, deposit mobilization at competitive rates is a challenging task for the bank. In this regard, the management intends to pursue maximum utilization of its network (currently 35 branches with plans to expand to 50 in the near-term). The bank received a good response to its term deposit product – *Maheena Assan* – on which the management intends to leverage by further refining its features and targeting a larger customer base. Similarly, it is also designing other liability products. However, most of these initiatives are at the initial stage and the timing and extent of improvement in performance remain to be seen. Nevertheless, timely implementation of effective systems and procedures, synergy of the senior management and their continued association with the bank are critical to withstand the intensifying competition.
- The bank's asset quality, measured in terms of NPLs-to-finances, experienced a major dent in 2005 mainly on account of certain exposures relating to transport sector. However, given the relative ease of repossession and disposal, the management is confident of speedy recovery and/or settlement against these cases at a minimal loss. At the same time, the bank is increasingly pursuing recoveries from its chronic default cases.
- The new management, being cognizant of risks associated with its aggressive growth plans, is paying full attention to strengthen the overall risk management framework. The suggested measures include a) establishing a risk management unit centralizing different risk functions, b) creation of an internal control unit, c) designing specific risk acceptance criteria for all business segments, and d) implementing a comprehensive core banking solution – *Mysis Equation* – a globally established retail banking software. The new system, while providing a strong MIS and supporting efficient services to customers, would facilitate timely implementation of the requirements of Basel II.
- The bank's capital structure, subsequent to recent equity injection by one of sponsors, remained intact with equity-to-assets of 9.8% at end-Mar 06. However, as the capital available for CAR is adjusted for equity investment in subsidiaries and goodwill, CAR was slightly lower (9.2% at end-Mar 06). The structure, though likely to decline with projected growth, is expected to remain adequate. However, to meet increasing paid-up capital requirements, the bank would primarily remain dependent on its sponsors.

#### BACKGROUND

- KASB Bank Limited, incorporated in October 1994 and listed on all three stock exchanges, was acquired by KASB group and an Omani group in October 2002. The bank's seven member Board of Directors comprises experienced professionals and is involved in the development of the bank's strategy and monitors its execution. In the past, the bank faced problems in building and ensuring continuity of the senior management team. The current chief executive, Mr. Muneer Kamal, an experienced banker with a distinguished profile, was inducted in November 2005. He has assembled a core team of experienced professionals for ensuring effective implementation of the newly chalked business strategy.