



RATING ACTION

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PACRA MAINTAINS ENTITY AND TFC RATINGS OF ROYAL BANK OF SCOTLAND LIMITED; KEEPS ON RATING WATCH

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of the Royal Bank of Scotland Limited (RBSL) at “AA” (Double A) and “A1+” (A One Plus), respectively. PACRA has also maintained the rating of the subordinated TFC issue of PKR 800mln by RBSL at “AA-” (Double A minus). The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect RBSL’s association with the Royal Bank of Scotland Group Plc (RBSG) which is majority owned by the Government of UK. In Feb 2009, RBSG announced its intention to explore new ownership for its businesses including Pakistan as part of its strategy. As a result, the Group has lately signed a share purchase agreement with Faysal Bank Limited. The transaction is expected to be executed by end third quarter CY10.

The successful and timely execution of sale transaction remains critical as the bank’s standalone profile has weakened owing to increased impairment in the loan book, and continuing business losses. Nevertheless, the ratings incorporate RBSG’s assurance to continue supporting Pakistan’s operations. Pending the completion of acquisition of bank by the new sponsor, the ratings would remain on “Rating Watch”.

The bank: RBSL, listed on all the stock exchanges in the country, is operating with 79 branches in more than 24 cities in Pakistan.

Since the announcement by RBS group to divest Pakistan operations, RBSL’s main focus has shifted towards consolidation of its operations (Total Assets at end Mar-10: PKR 87,987mln; CY08: CY08; 108,092mln). The bank is rationalizing its loan book with few new disbursements and deploying the maturing principle in short term government securities. Impairment in loan book remains key issue and NPLs as percentage of gross advances stand at 21% at end Mar-10, though the provision coverage remains adequate (74%).

RBSG, the parent of RBSL and 68% owned by Government of UK, has a consolidated asset base of more than US\$ 2,396bln at end Mar10. RBSG is rated by all three major international rating agencies (Long term Rating: Moody’s: A1; Standard & Poor’s: A; Fitch: AA-). In Feb09, RBSG announced to sell its operations in fifteen countries (business operations in more than 50 countries). Lately, RBSG has entered into a share sale agreement with Faysal Bank to sell its 99.37% stake in RBSL for US\$ 50.6mln (PKR 4,298mln).

TFC: RBSL issued unsecured subordinated TFC in February 2005 for a tenor of 8 years carrying mark-up at a floating rate of 6-month KIBOR plus 1.9%, payable semi-annually. Principal redemption will be in four equal annual installments and have commenced from Feb-10.

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