



## Rating Action

Lahore : 26-Oct-2011

## Analyst

Samiya Mukhtar  
(+92-42-35869504)  
samiya@pacra.com  
www.pacra.com

## PACRA revises ratings of KASB Bank Limited

PACRA has revised the long-term and short-term entity ratings of KASB Bank to "**BBB**" (Triple B) and "**A3**" (A Three) [Previous: A-/A2] respectively. The rating of the proposed sub-ordinate TFC has also been revised to "**BBB-**" (Triple B Minus) [Previous: BBB+]. The ratings denote an adequate capacity of timely payment of financial commitments.

The ratings reflect deterioration in the bank's risk absorption capacity, a consequence of less than adequate level of capitalization, and high level of infected loans. Moreover, drag of non earning assets (NPLs and strategic equity investments) coupled with low spreads are making it difficult to overcome ensuing business losses. Nevertheless, the bank carries an adequate liquidity profile and its deposit mix is changing in favor of stable current and saving accounts. The ratings incorporate recent equity injection (~PKR 3,000mln), which is expected to support the bank's financial profile, though the impact would be limited. The management has devised a detailed plan which inter alia includes a) bringing additional equity of US\$50mln, b) reduction in infected portfolio by accelerating the recovery process, c) mobilizing stable yet low cost deposits, and d) divestment of key non earning assets. In PACRA's opinion timely materialization of these initiatives is critical. Nevertheless, the ratings draw comfort from the vigilance and pro-activeness of the apex regulator - SBP. The outlook on the ratings remains negative highlighting the urgency to timely arrest the weakening profile. Meanwhile, garnishing the bank's franchise and achieving profitability from core business operations remain critical.

**The bank:** KASB Bank Limited, incorporated in October 1994, was acquired by KASB group in October 2002. The KASB Group has a sizeable portfolio of investments in financial sector. However, the financial profile of most of the group companies came under stress in recent periods due to difficult market conditions. Lately, KASB group has received US\$40mln from Asia International Finance (AIF), a China based group. Of this amount, PKR 3,000mln has been placed with KASB Bank as share deposit money. Post completion of right issue the bank would be 82% owned by KASB Finance, which in turn is equally owned by KASB Family and AIF. The group is making efforts to introduce other foreign investors to the bank, while also trying to mobilize sizeable FCY deposits.

**Proposed TFC:** The bank planned to issue subordinated TFCs of PKR 1,000mln for a period of 5.5 years. However, the said instrument could not be issued due to various reasons. Currently the bank is planning to enhance the size of the issue to PKR 1,500mln, the relevant details are yet to be finalized.

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