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Concessionary loan: SBP grants Rs20 billion to BankIslami

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ISLAMABAD:
The State Bank of Pakistan has given a Rs20-billion concessionary loan, including Rs5 billion at an incredibly low rate of 0.01%, to BankIslami to meet capital requirements following the amalgamation of KASB Bank into it, raising transparency concerns.

Two members of the SBP central board of directors confirmed to *The Express Tribune* that the central bank has extended Rs20 billion to BankIslami. The money was given after May 7 – the day KASB Bank was merged into BankIslami.

It has highlighted transparency issues pertaining to the BankIslami and KASB Bank amalgamation, as the central bank did not extend the facility through competitive bidding.

In protest against the move, a minority shareholder of KASB Bank has lodged a complaint with the National Accountability Bureau (NAB). The complainant, Shaheena Wajid Mirza, requested the anti-corruption watchdog to investigate the SBP governor and other officials of the central bank and Ministry of Finance for alleged corrupt practices and misuse of authority.

ESTIMATE

Rs3b

is the loss on account of lower interest rate the SBP will face for giving a loan of Rs5 billion at 0.01% to BankIslami

She also complained against AF Ferguson – the chartered accountant firm, which valued KASB Bank at just Rs1,000.

The Rs1,000 valuation wiped out 1.95 billion shares, held by 9,000 shareholders. By paying Rs20.5 million in consultancy fee, the SBP got a totally manoeuvred and fraudulent valuation report from AF Ferguson, alleged Shaheena.

She said the SBP governor and other officials concerned cheated the federal government, misrepresented the fundamental facts regarding financial health of KASB Bank and obtained moratorium in sheer abuse of Section 47 of the Banking Companies Ordinance 1962.

Shaheena, who is daughter of late secretary finance HU Baig, had acquired 833,639 shares of KASB Bank and is now fighting to get a return after the Central Depository Company refused to issue her certificates, according to the complaint filed by her.

This has given a new turn to the legal battle being fought by shareholders of KASB Bank in cases in Lahore and Sindh high courts, seeking a fair price for the 1.95 billion shares.

On May 7, the SBP merged KASB Bank into BankIslami after the former could not meet the statutory paid-up capital requirement of Rs10 billion.

In her complaint, Shaheena alleged that the central bank gave Rs5 billion at 0.01% to BankIslami for 10 years and for this unlawful favour the SBP is going to suffer a loss of Rs3 billion on account of lower interest rates.

The SBP has also given BankIslami an additional Rs15 billion at a concessionary rate on rollover basis for six months, according to the complaint.

SBP's version

The central bank neither denied nor confirmed that it gave the Rs20-billion preferential loan to BankIslami. It also refused to disclose lending details.

AID

$100m

was the amount offered by the Cybernaut Investment Group of China to bridge the capital shortfall faced by KASB Bank

"All actions pertaining to moratorium and amalgamation scheme of defunct KASB Bank were carried out under the legal provisions available in the Banking Companies Ordinance 1962 and SBP Act of 1956, with the primary aim to safeguard the interest of depositors," said the SBP in a terse reply.

It added no further statements could be made as certain aspects of the matter are currently sub judice.

BankIslami was among five banks that were also not meeting the minimum paid-up capital requirement, revealed the court filing of a former majority shareholder of KASB Bank.

Nasir Ali Shah Bukhari that had 43% stake in KASB Bank has filed a petition in the SHC, seeking fair market price for its shares.

The court filing also stated that KASB Bank had Rs5.86 billion worth of deferred tax assets and book value of its real estate assets was Rs2.9 billion, which was not considered by AF Ferguson during evaluation.

While KASB Bank was valued at Rs1,000, Bukhari stated that Ernst and Young consultancy firm put the bank’s net equity at Rs2 billion as of December 31, 2014.

The Cybernaut Investment Group of China had offered up to $100 million investment to bridge the capital shortfall faced by KASB Bank, but the SBP rejected the offer.

Bukhari, in his petition, also highlighted the issue of conflict of interest, saying AF Ferguson was also the auditor of SBP and Bank Islami, therefore, its Rs1,000 valuation report could not be considered impartial.

State Bank of Pakistan's version on article published in The Express Tribune on July 14, 2015

The State Bank of Pakistan (SBP) would like to clear its position with regards to an article published in the Express Tribune on July 14, 2015. Views expressed by the Correspondent are totally misleading and appear to malign the image of a highly respected institution of the country. The Correspondent has either deliberately ignored the causes of KASB Bank's amalgamation with BankIslami or lacks understanding of the financial sector regulator's roles in the financial stability. SBP has already given detailed press briefings/ releases on KASB Bank's issues in the past which the writer has failed to consult (http://www.sbp.org.pk/press/releases.asp).

To reiterate, the defunct KASB Bank was non-compliant with minimum capital requirement ("MCR") and capital adequacy ratio ("CAR") since 2009 and was the only bank in the industry with negative Capital Adequacy Ratio, thus rendering it technically insolvent. Considering the Bank's weak solvency position and serious regulatory violations, SBP imposed certain limitations on the bank and sponsors of defunct KASB Bank signed an undertaking with SBP in June 2013 to make up for deficient capital. Unfortunately, the sponsors and Board of Directors, failed to meet their critical commitment of capital injection. Ultimately, they were suggested to merge the bank with any of the large banks, however, they failed to do that either. Consequently, SBP had no option left other than placing the bank under moratorium and its resolution through scheme of amalgamation.

Regarding liquidity support, it should be understood that it is a normal practice of Central Banks to provide funding to the banks whenever they are under liquidity stress or to meet unexpected deposits withdrawal from their available funds. Liquidity support line upto Rs 15 billion was offered to BankIslami Pakistan in anticipation of heavy withdrawal by the depositors of defunct KASB Bank after lifting of moratorium and its amalgamation with BankIslami. This facility, valid for 180 days, is fully secured by Sukuk held by BankIslami. It may also be noted that SBP, under State Bank of Pakistan Act 1956, is empowered to provide such liquidity support. The facility has been extended to various banks in the past.

A long term financing facility of Rs 5 billion against Sukuk was provided to BankIslami to cover the gap between value of assets and liabilities that existed in the balance sheet of defunct KASB Bank. Large gap in valuation of assets and liabilities was identified not only by the four commercial banks, who registered interest in the acquisition of defunct KASB Bank, but also by an independent audit firm. Had this long term financing facility not been extended to the BankIslami, depositors of the BankIslami would have to bear losses without any of their own fault. Consequent to operational losses incurred and NPLs, substantial gap in the valuation of assets and liabilities had arisen, therefore, the shareholders equity was completely eroded. Resultantly shareholders were offered a token compensation of Rs 1,000. There are many examples of sale of banks at a nominal price in similar situations such as the sale of Barings

Bank UK at a price of 1 pound to ING group and sale of Lehman Brothers USA Asia pacific Business to Nomura holdings at 2 US dollars only in not too distant past.

It may also be worth to clarify that whenever SBP has resolved or rehabilitated any problem bank like KASB Bank it had provided financial support to the acquiring bank. Moreover, there are numerous instances in various economies including USA and England, where regulator and the Government itself injected billions of dollars into the banks to bail them out and to maintain overall financial stability. For example US Treasury injected huge funds in Bank of America, Citi Group, JPMorgan Chase, Wells Fargo, Goldman Sachs and Morgan Stanley etc. after Global Financial Crisis of 2007-8.

Perhaps it deserves appreciation that contrary to afore-mentioned international examples, SBP did not inject public funds into the BankIslami rather only short and long term financing facilities were extended, adequately secured against Sukuks, which will be repayable on due dates.

Correspondent’s assertion that a shareholder of defunct KASB Bank has filed a complaint with NAB is of course a prerogative of any person aggrieved to file a complaint. However SBP’s stance/ action has already been validated at the Honorable Islamabad High Court. In this context we recall that ex-sponsors of the defunct KASB Bank firstly filed a writ petition before Islamabad High Court after imposition of Moratorium, which they subsequently withdrew un-conditionally. Later on they filed another writ petition before the same Court. The honorable Islamabad High Court declared the petition to be without force and dismissed the same. SBP would continue to defend its position at any forum in the interest of the depositors.

Investors in Stock Exchange need to be careful and closely watch the performance of the investee company/bank because if the Company fails they might lose their investment. Shareholders of the defunct KASB Bank failed to protect their investment despite poor performance of the bank since 2009 and reported in annual, half yearly and quarterly published accounts.

State Bank of Pakistan reiterates that all actions pertaining to moratorium and amalgamation scheme of defunct KASB Bank were carried out under the legal provisions available in the Banking Companies Ordinance 1962 and SBP Act of 1956, with the primary aim to safeguard the interest of depositors.