

**PRIME COMMERCIAL BANK LIMITED (PCBL)****RATINGS (JUNE 2007)****PRIME COMMERCIAL BANK LIMITED**

	NEW*	PREVIOUS
TFC		
Unsecured, Subordinated		
1 st Issue (PKR 800mln)	A	A

*The rating is placed on RatingWatch Positive.

FINANCIAL DATA

PKR (mln)	31-Dec-06	31-Dec-05
Total Assets	52,340.0	53,757.0
Equity	3,797.8	3,438.1
Profit after Tax	359.7	495.3
ROE %	9.94	14.82
ROA %	0.68	1.05
Equity/Assets %	7.26	6.40
SBP CAR	13.47	12.40

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ASSESSMENT

- The rating, on a standalone basis, reflects sound capital structure of PCBL, engendering an adequate risk absorption capacity. However, lately, the same has come under pressure due to a sizeable increase in the bank's NPLs, thereby, impacting performance on account of higher provisioning. Meanwhile, ABN AMRO Bank N.V. has acquired the majority stake in PCBL and is in the process of merging ABN AMRO Pakistan branches, with and into PCBL. The merged entity, while enjoying close institutional linkage with one of the world's leading and financially strong banks, would be better placed to withstand the increasingly competitive banking environment in the country. Recognizing the potential, PACRA has assigned a positive outlook to the rating, while placing them on RatingWatch pending completion of the merger process and a formal rating review of the new entity.
- The acquisition process consumed a major part of 2006. As a consequence, PCBL, unlike most peers, remained relatively passive in pursuing growth opportunities and the trend continued during 1Q07. This is reflected by over 11% reduction in total assets by end-Mar-07 compared to end-05. Although both advances and deposits were under pressure, the impact was more pronounced in the case of deposits. However, this has led to improvement in credit-to-deposit ratio (end-Mar-07: 80%, end-05: 67%), which has helped the bank in preserving its spreads. At the same time, with limited increase in revenues and escalating operating costs, the bank's performance was stressed.
- The bank's asset quality has experienced deterioration in the recent period. NPLs, in absolute terms, have almost tripled by end-Mar-07 compared to the level at end-05 and, with limited credit expansion, impaired lending as a percentage of finances increased to 7.7% from 5.1%. This apparent deterioration, to some extent, emanates from a relatively stringent loan classification exercise carried out by ABN AMRO during the due diligence process. In addition to weakening of monitoring and recovery functions at the bank, these NPLs, to a great extent, were a function of stringent classification criteria imposed by ABN AMRO. It is expected that, once the merger process is completed, the new management would put in place a robust risk management framework including strengthening of recovery procedures. This, while helping in regularisation of existing impairment, would assist in minimizing loan delinquency, going forward.
- As the bank's assets have shrunk, its capitalization, both in terms of equity to assets and CAR, has improved. However, with increased NPLs, the drag of net impairment on equity was significant – 44% at end-Mar-07.

TFC ISSUE

- PCBL issued an unsecured subordinated TFC in 2005 for a tenor of 8 years carrying mark-up at a floating rate of latest 6-month KIBOR plus 1.9%, payable semi-annually. Principal redemption will be in four equal annual installments commencing from Feb-10. The TFC, with its relatively longer tenor, was issued to provide added support to the bank's CAR.

PROFILE

- After commencing operations in 1992, PCBL currently operates a network of 69 branches including two Islamic branches, with presence in 25 cities of the country. ABN AMRO Bank N.V. completed acquisition of majority shareholding (above 96%) in PCBL in March 2007 and is currently in the process of merging its Pakistan Operations with the bank. The merger process is likely to be completed within a few months time. After merger with ABN AMRO Pakistan branches, the merged entity, with a network of 81 branches, would have above 3% share in the system assets.
- The newly appointed seven-member BOD of PCBL comprises personnel holding key positions in ABN AMRO. Mr. Naved A. Khan, also holding the position of Country Executive of ABN AMRO Pakistan branches, has assumed the responsibility as the bank's new President and Chief Executive. He is a seasoned banker with both local and international experience. A four-member committee, comprising two members each from PCBL and ABN AMRO, has been formed to oversee smooth transition of the merger process.
- ABN Amro Bank N.V., established in Netherlands, is one of the largest banks in the world operating in 56 countries with above 4,500 branches and offices, and an asset base of close to €1,000bln. Following its multiregional strategy, it focuses on mid-market private and commercial clients, supported by wholesale business. The bank has a long-term rating of 'AA-' by Standard & Poors and Fitch. The ratings, inter-alia, reflect the bank's wide geographical and business diversification, and healthy asset quality indicators.