



Rating Action

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Applicable Criteria and Related Research

- Banking Sector - Viewpoint | Dec-15
- Bank Rating Methodology
- Debt Instrument Rating Methodology

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PACRA Assigns Preliminary Rating to TFCs of The Bank of Punjab

The Pakistan Credit Rating Agency (PACRA) has assigned a preliminary rating of "AA-" (Double A Minus) to the proposed, subordinated and unlisted TFCs of PKR 2,500mln to be issued by The Bank of Punjab (BOP). The rating denotes very strong capacity of timely payment of financial commitments.

The rating reflects the improved risk profile of BOP. The bank's capitalization and, hence, risk absorption capacity has witnessed sizeable uptick. Capital Adequacy Ratio (CAR) of the bank clocks in at 12%, which would be further beefed up with the issue of proposed TFCs. There has been an appreciable improvement in the bank's profitability, over the years, on the back of improved interest income and capital gains, supplementing its equity base. The bank witnessed reduction in the non-performing loans inherited by the current management, though further recovery is taking time. Moreover, continued support from the sponsors - the Government of Punjab (GoPb) - provides requisite fiscal space; fresh capital injection and Letters of Comfort (LOCs) against provisioning for certain infected exposures are valid till 2018. Association with GoPb has benefited the bank in terms of a sustainable deposit base. Further synergies with GoPb are being unfolded. The bank envisages growth in advances wherein the criteria is higher margins with sustained risk profile. Meanwhile, expansion in deposit base with low cost focus, while attracting a wide customer range, is on the cards.

The rating of TFCs is dependent upon compliance with all major covenants.

About the TFCs:

BOP intends to issue unlisted TFCs of PKR 2,500mln to contribute towards Tier II Capital. The tenor of the instrument is 10 years from the date of issue. Profit would be based on 6M-KIBOR plus a spread. The issue will carry lock-in and loss absorbency clauses, as per Basel III capital regulations.

About the Bank

The Bank of Punjab, established under the BOP Act 1989, is listed on Pakistan Stock Exchange (PSX). The bank operates a vast network of 408 branches, mainly concentrated in Punjab (87%). The Government of Punjab (GoPb) holds majority stake in BOP (58%), whereas the rest is widely dispersed.

Mr. Naeemuddin Khan, the President of the Bank since Sep-08, has four decades of diversified banking experience and has been associated with reputed international and domestic banks during his career. The senior management consists of seasoned bankers. The current team has played a pivotal role in the bank's revival; their continuity and cohesiveness is critical for successful execution of the envisaged business plan.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

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