



The Pakistan Credit Rating Agency Limited

## Rating Report

### The Punjab Provincial Cooperative Bank Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Mar-2024	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The Punjab Provincial Cooperative Bank Limited ('PPCBL' or the 'Bank') is one of the oldest banks in Pakistan, having started operations in 1924. The principal activity of the Bank is to create a green revolution through agriculture financing and support the cooperatives societies, whereas work still needs to be done to achieve this. The Bank has a limited presence in the banking space due to having long-standing qualitative and legislative challenges. However, PPCBL is currently in a transformative stage having made major investments towards updating its operational efficiency and infrastructure, along with strengthening its management team. PPCBL currently operates through 151 branches located in Punjab, primarily lending to the agriculture sector. The Government of Punjab has controlling stake of the Bank (~95%). The Bank has recently constituted a seven-member board of directors, having two independent and five non-executive directors, whereas remaining four board members (one independent, two non-executive, and one executive) shall be appointed within FY24 for an 11-member board. The chairperson of the board shall be the current Secretary of Cooperatives Society of the Government of Punjab; moreover, the non-executive directors are also representatives of the Government of Punjab. The organizational structure of PPCBL has recently been improved to add key departmental heads. An experienced management team is present to run the operations; however, currently Mr. Saleem Tahir is acting as the CEO/President along with his role as the Chief Operating Officer. Having a dedicated President/CEO to oversee the Bank is important. The transformative stage the Bank is currently in also involves digitalizing its operations and the Bank has also added a Core Banking System, which will improve the internal control environment moving forward. The ratings reflect the limited growth of PPCBL over the years. The Bank has a stable ~PKR 6bln deposit base at end-Jun'23 which has had low growth over the years due to legislative measures imposed on PPCBL. Similarly, advances have largely remained around the ~PKR 8bln to ~PKR 12bln mark over the past four years, standing at ~PKR 12bln at end-Jun'23. The Bank earned ~PKR 2.6bln of markup income during FY23 (SPLY: ~PKR 2bln) whereas net profitability surged to ~PKR 623mln during FY23 (SPLY: ~PKR 357mln) due to topline growth and rental income. Liquidity risk is limited as PPCBL has no borrowings as at end-Jun'23, parking its excess funds into an investment book of ~PKR 3bln at end-Jun'23 comprising mainly market T-Bills. The ratings incorporate an adequate equity base (net of revaluation) of ~PKR 8.4bln at end-Jun'23 (SPLY: ~PKR 7.8bln) whereas CAR stood at ~40% at end-Jun'23 (~38% at end-Jun'22).

Moving forward, the ratings are dependent upon the Bank completing its transformative stage and improving its internal control environment. Moreover, growth in advances and deposits, translating to topline growth, remains important.

#### Disclosure

<b>Name of Rated Entity</b>	The Punjab Provincial Cooperative Bank Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23),Methodology   Financial Institution Rating(Oct-23)
<b>Related Research</b>	Sector Study   Commercial Bank(Jun-23)
<b>Rating Analysts</b>	Hassaan Ahmad   Hassaan.Ahmad@pacra.com   +92-42-35869504



## Profile

**Structure** The Punjab Provincial Cooperative Bank Limited ('PPCBL' or 'the Bank') was incorporated in 1924 as a Cooperative Bank under the Cooperative Societies Act, 1912 (repealed) (now the Cooperative Societies Act, 1925).

**Background** PPCBL was given the status of a scheduled bank by the State Bank of Pakistan (SBP) in 1955. The Bank is operating under the supervision of the Cooperative Department, the Government of Punjab, and the State Bank of Pakistan (SBP).

**Operations** The bank's principal activity is to provide credit facilities to the agricultural sector. At the end - Sep'23, the Bank has 9 zonal offices and 151 branches (Jun'23: 151 branches) in the province of Punjab.

## Ownership

**Ownership Structure** The Government of Punjab holds a controlling stake of ~95% in The Punjab Provincial Cooperative Bank Limited. The rest of the shareholding is by cooperative societies ~5%.

**Stability** The ownership structure of the bank is seen as stable due to the government ownership, and no ownership changes are expected in the future.

**Business Acumen** The Bank had a period of low growth; however, since CY21, the Bank has entered into a transformative state with resurged sponsor interest.

**Financial Strength** Being government owned, financial strength of the Bank's sponsor is considered strong.

## Governance

**Board Structure** PPCBL has recently constituted a seven-member board with two independent and five non-executive directors. Moreover, one independent director, two non-executive directors, and one executive director shall also be on-boarded during FY24 for an eleven-member board. The board structure is congruent with the Bank's business plans and the best practices of the industry.

**Members' Profile** The Chairman of the Board, Miss Musarrat Jabeen, joined in Feb'23 as a Secretary, Govt. of Punjab, Cooperatives Department. She has an extensive work experience of 23 years in different government sectors. Moreover, the other non-executive directors are also representatives of the Government of Punjab having a diverse experience.

**Board Effectiveness** The recently formed board has already taken major steps towards streamlining operations of the Bank, whereas formation of board committees has also been completed.

**Financial Transparency** IECnet S.K.S.S.S Chartered Accountants are the external auditors of the company. They have expressed an adverse opinion on the financial statements for FY23. The firm is in the B Category of SBP's panel of auditors. The Company also has an internal audit department for a better control framework.

## Management

**Organizational Structure** The bank has a well- developed organizational structure with experienced senior management. PPCBL has recently enhanced its organizational structure by the addition of all requisites departments and departmental heads.

**Management Team** The senior management consists of seasoned bankers having diversified experience. The Management Team is headed by Mr. Saleem Tahir who joined PPCBL in CY22 and is currently the Chief Operating Officer and the acting President/CEO. Having dedicated personnel as Head Operations, COO, and CEO shall enhance management framework further.

**Effectiveness** The bank's management structure comprises of three management-level committees: i) Risk Management Committee, ii) Compliance Committee, iii) Corporate Management Team, and, iv) IT Steering Committee. The Committees are tasked with overseeing day-to-day operations and implementing the board's outlined strategy.

**MIS** A comprehensive IT security policy has been put in place along with risk mitigation protocols. PPCBL has installed different software to manage different departments. A recent overhaul of the IT systems has been done, with the Bank having installed a state-of-the-art Core Banking System to effectively manage its risks and operations.

**Risk Management Framework** The risk management framework is based on prudent risk identification, measurement, management and monitoring processes which are closely aligned with the activities of the bank. The framework combines core policies, procedures and process designs with broad oversight. It is supported by an efficient monitoring mechanism across the bank to ensure its risks are kept within an acceptable level.

## Business Risk

**Industry Dynamics** The country's economy has gone through several varied phases in the last few years. Pakistan posted a GDP growth rate of 1.69% in 1QFY24. The banking sector continues to flourish with high profitability. Total banking assets posted growth of 25% YoY whilst investments surged by 29% YoY to PKR 23trln (end-Sep'22: PKR 19trln). Gross Advances of the sector recorded growth (6%) to stand at PKR 12trln (end-Sep'22: PKR 11trln). Non-performing loans stood at PKR 1,813mln. The Capital Adequacy Ratio remained intact at 19% (regulatory requirement of 11.5%).

**Relative Position** PPCBL has a market share of ~0.01% at end-Sep'23 (end-Jun'23: ~0.01%) in terms of deposits. The customer deposit base stands at ~PKR 6bln as of end-Sep'23 (Jun'23: ~PKR 6bln). The Bank had a period of low to no growth over the past few years; however, is poised to grow its business and achieve a higher market share with the conclusion of its transformation.

**Revenues** During 1QFY24, PPCBL's net markup interest income witnessed an incline of ~33% to stand at ~PKR 639mln (1QFY23: ~PKR 478mln) primarily attributed to increased markup earnings. Whereas the markup expenses increased to stand at ~PKR 247mln (1QFY23: ~PKR 91mln). During FY23, PPCBL's reported a net markup interest income of ~PKR 2bln (FY22: ~1.8bln).

**Performance** During FY23, non-markup income inclined by 79% YoY to stand at ~PKR 281mln (FY22: ~PKR 157mln). The non-markup expenses also grew by 13% to stand at PKR 1.7bln (FY22: PKR 1.5bln). The net profitability increased by 74% to stand at PKR 0.6bln (FY22: PKR 0.3bln). During 1QFY24, the Net markup income of the bank increased to PKR 0.6bln (1QFY23: PKR 0.4bln). The net profit of the bank decreased by 22% to stand at PKR 106mln (1QFY23: 137mln).

**Sustainability** The management aims to expand the deposit base and enhance customer diversity. The implementation of modern technological tools is envisioned to bolster control measures and operational efficiency.

## Financial Risk

**Credit Risk** At end-June'23, PPCBL's net advances have grown by 30% YoY to stand at PKR 11bln (end-Jun'22: PKR 10bln). ADR was reported at 171%, NPLs stood at PKR 1.8bln. At end-Sep'23, net advances of the bank clocked in at PKR 10bln. Consequently, the infection ratio of the bank inched up to 2.5%. However, the low growth of the advances portfolio and the high ADR lends credence to low market penetration and low avenues of new business generation.

**Market Risk** At end- Sep'23 the investment portfolio of the bank has increased by ~81% to stand at ~PKR 6bln. The composition of the investment portfolio was ~92% T-bills and the remaining ~8% are other investments.

**Liquidity And Funding** At end of Sep'23, customer deposits stood at ~PKR 6bln. The bank's deposit share in the market stood at ~0.02%. CA and SA proportion rationalized to ~23% and ~67% respectively.

**Capitalization** At end-Sep'23, the bank reported CAR of ~ 42%, comprising of Tier I capital (~72%). The equity (net of revaluation) of PPCBL at end-Sep'23 stood at ~PKR 9bln.



PKR mln

The Punjab Provincial Cooperative Bank Limited  
Listed Public Limited

Sep-23	Jun-23	Jun-22	Jun-21
3M	12M	12M	12M

**A BALANCE SHEET**

1 Total Finances - net	8,704	10,392	7,672	8,031
2 Investments	6,005	3,312	4,129	3,541
3 Other Earning Assets	704	1,331	1,006	933
4 Non-Earning Assets	17,566	17,397	18,004	11,529
5 Non-Performing Finances-net	257	234	488	854
<b>Total Assets</b>	<b>33,236</b>	<b>32,665</b>	<b>31,298</b>	<b>24,888</b>
6 Deposits	6,208	6,224	5,015	4,155
7 Borrowings	-	-	-	-
8 Other Liabilities (Non-Interest Bearing)	2,933	2,444	2,845	6,031
<b>Total Liabilities</b>	<b>9,142</b>	<b>8,668</b>	<b>7,860</b>	<b>10,185</b>
<b>Equity</b>	<b>24,094</b>	<b>23,998</b>	<b>23,438</b>	<b>14,703</b>

**B INCOME STATEMENT**

1 Mark Up Earned	886	2,689	2,001	1,875
2 Mark Up Expensed	(247)	(636)	(211)	(236)
3 Non Mark Up Income	61	281	157	465
<b>Total Income</b>	<b>701</b>	<b>2,334</b>	<b>1,947</b>	<b>2,104</b>
4 Non-Mark Up Expenses	(534)	(1,775)	(1,574)	(1,684)
5 Provisions/Write offs/Reversals	(1)	146	2	(97)
<b>Pre-Tax Profit</b>	<b>166</b>	<b>705</b>	<b>374</b>	<b>322</b>
6 Taxes	(60)	(82)	(17)	(19)
<b>Profit After Tax</b>	<b>106</b>	<b>623</b>	<b>357</b>	<b>303</b>

**C RATIO ANALYSIS**

**1 Performance**

Net Mark Up Income / Avg. Assets	7.8%	6.4%	6.4%	6.5%
Non-Mark Up Expenses / Total Income	76.2%	76.1%	80.9%	80.1%
ROE	1.8%	2.6%	1.9%	2.1%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	72.5%	73.5%	74.9%	59.1%
Capital Adequacy Ratio	41.5%	40.1%	38.2%	49.2%

**3 Funding & Liquidity**

Liquid Assets / (Deposits + Borrowings Net of Repo)	109.9%	78.8%	123.9%	108.1%
(Advances + Net Non-Performing Advances) / Deposits	144.3%	170.7%	162.7%	213.9%
CA Deposits / Deposits	22.6%	18.1%	23.0%	19.4%
SA Deposits / Deposits	66.5%	70.5%	64.4%	70.6%

**4 Credit Risk**

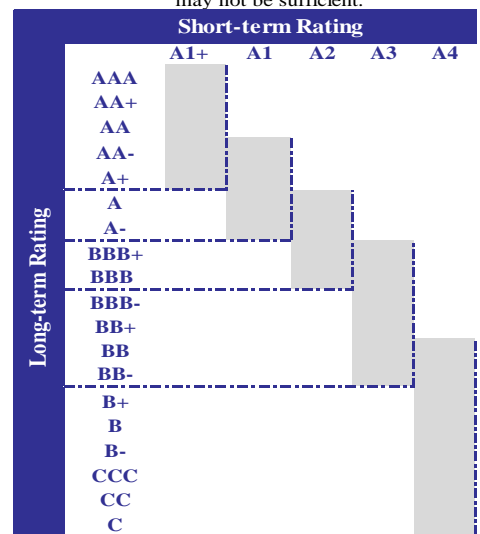
Non-Performing Advances / Gross Advances	17.2%	14.7%	22.2%	24.2%
Non-Performing Finances-net / Equity	1.1%	1.0%	2.1%	5.8%

### Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

a) Broker Entity Rating	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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