



The Pakistan Credit Rating Agency Limited

Rating Report

The Bank of Punjab

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2019	AA	A1+	Stable	Maintain	-
28-Jun-2019	AA	A1+	Stable	Maintain	-
27-Dec-2018	AA	A1+	Stable	Maintain	-
27-Jun-2018	AA	A1+	Stable	Maintain	-
30-Dec-2017	AA	A1+	Stable	Maintain	-
22-Jun-2017	AA	A1+	Stable	Maintain	-
23-Sep-2016	AA	A1+	Stable	Upgrade	-
29-Jun-2016	AA-	A1+	Positive	Maintain	-
29-Jun-2015	AA-	A1+	Positive	Maintain	-
30-Jun-2014	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect improved risk profile of Bank of Punjab (BoP) with an appreciable enhancement in profitability and asset quality over the last few years which supplemented the equity base. Last few years are reflective of this, during 9MCY19, the bank has recorded commendable uptick in revenue base – both interest earned and income from fee and commission. The former is largely attributable to hike in key policy rate as advances witnessed marginal growth. Hence, a rise was witnessed in asset yield. Resultantly, spread inched up to 5.1% (end-Dec18: 4.6%). Although, the bank performed well, but on the other hand, hike in NPLs led to net provisioning expense being recorded. On the funding side, saving deposits witnessed significant jump. The concentration of government and public sector deposits remain high. The bank's Capital Adequacy Ratio (CAR) clocked in at 14.66% as at end-Sep19, which is a healthy sign for BoP. Going forward, 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 ratings are dependent on the financial risk profile of the bank, mainly emanating from sustenance of capital adequacy and continued healthy profitability trend in line with the management's plans. Meanwhile, improvement in asset quality and upholding better governance standards remain imperative.

Disclosure

Name of Rated Entity	The Bank of Punjab
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_FI(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Commercial Bank(Jun-19)
Rating Analysts	Abdul Wahab abdul.wahab@pacra.com +92-42-35869504



Profile

Structure BoP was established under the BoP Act 1989, as a non-scheduled bank and was subsequently converted into a scheduled bank in 1994. The bank is quoted on PSX.

Background With its head Office in Lahore, the bank operates with a network of 611 branches as at end-Sep19 and employs more than 9,227 employees (end-Dec18: 9,400).

Operations The bank's principal activities are to provide commercial and Islamic banking services to individuals and institutional clients.

Ownership

Ownership Structure The Government of Punjab (GoPb) holds controlling stake of ~57% in BoP. The rest of the shareholding is by local individuals (~20%) and institutions (~23%).

Stability Ownership structure of the company is seen as stable as no ownership changes are expected in near future. Majority stake will rest with The Government of Punjab

Business Acumen Sponsor's business acumen is considered good as BoP has been achieving milestones by successfully making the right business decisions. Over the last few years, it has become a profitable institution.

Financial Strength Given that BoP is the flagship business of the sponsors, willingness to support the Bank in case the need arise is considered high; also supplemented by access to the capital markets.

Governance

Board Structure BoP has a seven-member Board. Four members, including the Chairman, are representing GoPb on the Board while three are independent members.

Members' Profile The bank's members of BoD are also distinguished professionals including seasoned bankers and civil servants. However, owing to the institutional framework of BoP, the key shareholder can exert influence over the BoD that may potentially compromise its independence.

Board Effectiveness The BoD exercises close monitoring of the management's policies and the bank's operations via sub-committees. The Board members' attendance and participation is considered good and effective

Financial Transparency The auditors – M/s EY Ford Rhodes, Chartered Accountants, have expressed unqualified opinion on the financial statements of the bank for CY18. The retiring auditors (EY Ford Rhodes) have been re-appointed as statutory auditors of the bank for year 2019.

Management

Organizational Structure The bank has assembled an experienced top management team to spearhead its restructuring initiatives and streamlining key functions.

Management Team Mr. Khalid Tirmizey, Deputy CEO, has become Acting President / CEO in Dec-18. He has been associated with reputed international and domestic banks during his career. The senior management consists of seasoned bankers having diversified experience.

Effectiveness The bank has various committees in place at the management level to oversee its day-to-day operational matters and take decisions to implement the strategy outlined for it by the board.

MIS The bank has successfully implemented an internationally renowned Oracle based core banking system 'Flexcube' and all branches have been migrated to new CBS.

Risk Management Framework The bank continued to strengthen its capacity to manage its risks and risk management environment. In addition to that the bank has put in place a standardized approval processes for all credit proposals to minimize the credit risk. Training sessions for various risk takers across the bank has been carried out by RMG.

Business Risk

Industry Dynamics Despite challenging macroeconomic environment, banking sector maintained its growth trajectory during 9M CY19, backed by decent growth in deposits (9M CY19: PKR 14,945bln; 9M CY18: 13,603bln). However, lending was largely skewed towards investments and particularly towards government instruments due to favorable interest rate dynamics (9M CY19: PKR 9,641bln; 9M CY18: 6,942bln). Meanwhile, advances witnessed a slowdown owing to subdued economic activity, cautious lending approach and monetary tightening (9M CY19: PKR 8,014bln; 9M CY18: 7,422bln). Asset quality saw some deterioration – increased NPLs, particularly in sugar and energy sectors (9M CY19: PKR 758 bln; 9M CY18: 637bln). The profitability of the banking sector improved due to increase in Net Interest Income, which translated positively in other profitability indicators. The overall risk profile of the banking sector remained satisfactory.

Relative Position BOP, a medium sized bank, holds a good position in the industry; 4.6% system share and deposit base of PKR 640.5bln as at end Sep-19.

Revenues During 9M CY19, BoP's NIMR witnessed an increase of ~40% on YOY basis to stand at PKR ~19.8bln (CY18: PKR ~15bln; 9M CY18: PKR ~14bln) on the back of volumetric growth as well as rise in key policy rate. The bank's asset yield inched up ~10.9% (end-Dec18: ~7.9%; end Sep-18: ~7.5%). Cost of funds also increased to 4.2% (end-Dec18: ~4.6%; end Sep-18: ~4%). Hence, bank's spread inched up (9M CY19: 5.1%; CY18: 3.6%).

Performance During 9M CY19, Non-markup income almost remained same YoY (9M CY19: PKR 2.8bln; 9M CY18: PKR 2.8bln). Bank recorded a provision expense of PKR 1.47bln (Provision Reversal: CY18: PKR ~1.15bln; 9M CY18: PKR ~948mln) all the above factors contributed to the bottom-line to stand at an impressive PKR 6.1bln (CY18: PKR ~7.5bln; 9M CY18: PKR ~5.4bln).

Sustainability Going forward, the management envisages growth in deposit base while bringing granularity in customer base through penetrating private sector deposits. To achieve this, the bank envisages increased outreach, focusing on service excellence and launch of new products. Growth in advances is also on the cards, wherein the Criteria is higher margins and sustainable risk profile. The Bank is also keen to take benefit of (CPEC) and play its role in national development.

Financial Risk

Credit Risk During 9M CY19, BOP's advances have shrunk by ~2.7% (9M CY19: PKR 371bln; CY18: PKR 381bln). The Bank's ADR decreased to 58% (end-Dec18: 64%). Infection ratio increased to ~12.5% end-Sep19 (end-Dec18: ~11.6%). Cumulatively, The total provision coverage ratio is 12.3% (end Sep-19: 10.4%). All of the above factors make the bank least vulnerable to credit risk.

Market Risk During 9M CY19, the investment portfolio of the bank has grown by ~73% to stand at PKR 362.5bln (end-Dec18: PKR 210bln).

Liquidity And Funding The main source of BoP's funding is its deposit base, constituting around ~80% of the total liabilities as at end-Sep19 (end-Dec18: ~88%). The bank witnessed growth of ~7.7% in its deposit (9M CY19: PKR 640bln, CY18: PKR 595bln). The bank was able to attract deposits with similar proportion of current and savings account, thus slightly decrease in its CA/ deposit ratio at 22.2% and SA/ Deposit ratio slightly increased to 48% in Sep-19 from 43% in Dec-18. The bank's deposits posted a growth of 7.7%, against average industry decline of 2.8%. The bank's liquidity, in terms of its Liquid Assets-to-Deposits and Borrowings net of repo, ratio stands at ~50.4% (CY18: ~39%).

Capitalization The capitalization level of the bank was improving since the last few years. As at end-Sep19 the bank's Capital Adequacy Ratio raised to 14.66% (Dec18: 13.17%) with the Tier I ratio improving to 11.23% (previously 9.86%). As of today, BoP is compliant with SBP's enlisted CAR requirements.



PKR mln

The Bank of Punjab
Listed Public Limited

Sep-19	Dec-18	Dec-17	Dec-16
9M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	374,300	384,492	298,344	246,188
2 Investments	354,852	204,187	237,183	194,712
3 Other Earning Assets	9,547	30,746	28,732	14,646
4 Non-Earning Assets	100,458	91,685	90,747	68,758
5 Non-Performing Finances-net	4,973	3,270	2,731	20,910
Total Assets	844,129	714,380	657,737	545,214
6 Deposits	640,525	595,582	556,281	453,220
7 Borrowings	123,262	50,590	43,448	44,329
8 Other Liabilities (Non-Interest Bearing)	37,760	30,487	28,276	19,811
Total Liabilities	801,547	676,659	628,005	517,360
Equity	42,582	37,720	29,732	27,854

B INCOME STATEMENT

1 Mark Up Earned	57,135	46,893	34,668	29,674
2 Mark Up Expensed	(37,303)	(26,840)	(19,095)	(17,430)
3 Non Mark Up Income	2,801	3,673	4,591	5,294
Total Income	22,633	23,726	20,165	17,539
4 Non-Mark Up Expenses	(10,645)	(12,666)	(10,132)	(8,464)
5 Provisions/Write offs/Reversals	(1,473)	1,148	(14,731)	(1,025)
Pre-Tax Profit	10,515	12,208	(4,698)	8,050
6 Taxes	(4,335)	(4,645)	1,376	(3,192)
Profit After Tax	6,180	7,564	(3,322)	4,858

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	3.4%	2.9%	2.6%	2.4%
Non-Mark Up Expenses / Total Income	47.0%	53.4%	50.2%	48.3%
ROE	20.5%	22.4%	-11.5%	19.2%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	5.0%	5.3%	4.5%	5.1%
Capital Adequacy Ratio	14.7%	13.2%	9.7%	12.3%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	50.4%	39.0%	47.6%	45.3%
(Advances + Net Non-Performing Advances) / Deposits	58.0%	64.1%	53.2%	57.8%
CA Deposits / Deposits	22.2%	25.4%	28.4%	28.8%
SA Deposits / Deposits	48.2%	43.3%	43.3%	42.7%

4 Credit Risk

Non-Performing Advances / Gross Advances	12.5%	11.6%	14.9%	18.7%
Non-Performing Finances-net / Equity	11.7%	8.7%	9.2%	75.1%

Credit Rating Scale & Definitions

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.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. 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.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. 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.		
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- 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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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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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
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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